Sales incentive program design and compensation

Stacie Leake

SALES INCENTIVE PROGRAM DESIGN

AND COMPENSATION

A Project

Presented to the

Faculty of

California State University,

San Bernardino

In Partial Fulfillment

of the Requirements for the Degree

Master of Business Administration

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Approved by:

[redacted] 2/26/2000

Dr. Mo Vaziri, Ph.D., First Reader — Date

[redacted] 7/27/2000

Dr. Conrad Shayo, Ph.D., Second Reader — Date

[redacted] 7/28/00

Linvol G. Henry, Chair — Date

ABSTRACT

Given the pace at which businesses are changing as a result of mergers/acquisitions, globalization, and new technology, it is unlikely that the challenges associated with implementing new sales roles will go away. The first step in building an effective sales system comes down to one fundamental question. What do our customers need and value? This question must be answered through the company's strategic objective. To define these opportunities for the sales force, the customer set must first be segmented. By analyzing how customers buy, the purchase criteria they use, the size of the opportunity they represent, and the cost to serve each group of customers, the company can begin to direct the sales force toward that profitable segment of the marketplace. Understanding these critical factors for each customer segment will serve as the starting point in developing a focused and effective sales strategy.

There are a growing number of service organizations shifting their focus of a service institution, to that of sales and service. This is not surprising because today, specifically in the financial institution industry many have their costs under control and top management is

focusing on the threat of changing competition, future growth, and acquisition. To achieve profitable growth, financial institutions are working to create new markets and increase sales to current customers. Small community banks and credit unions are perfect examples of past service focused organizations that are now embracing the need to look at, and focus on sales. The customer service aspect of the small bank/credit union business is outstanding; many of their customers originally came to them because of the banking experience.

Management in these institutions are beginning to look at their "new accounts" position differently, recognizing the need to sell products proactively rather than reactively. The shift from a service organization to a sales and service organization will focus on each member independently, and determine what products and services will best meet their needs. In time, new account representatives will become a sales representatives and offer financial advice on products. In the past, new account representatives waited for a customer to request a product, and then go through every effort to make the account opening process pleasant and convenient. Now we are looking at combining the two. Not only will it be a pleasant experience, but these sales representatives will know what products will best meet the customers needs, what delivery channels will best support the way they like to do business, and the most convenient method to make all of this happen. If these small financial institutions have had a sales force in the past they are now beginning to create "new sales roles" for those employees, and struggling with the failure of their old compensation plans, or beginning to create one for the first time.

Too often, the old compensation plans are out of step with today's business objectives. Rather than promoting growth, the compensation plans can actually hinder that growth. To overcome competitive threats, these small financial institutions must continually increase the effectiveness of all employees who come in contact with members and prospects. In particular, they must increase the effectiveness of the way the business rewards and recognizes those employees for their contributions to the company's success.

Virtually no company - regardless of size, product, or method of distribution is immune to the changes that are taking place in the way customers want to do business. If these institutions have not already been challenged with how to compensate employees for performing a sales role, it will be. This project will define a sales role as the "part" an employee plays in the process of interacting with a customer.

A new sales role comes into being when the company adds or subtracts sales responsibilities from a current job, or creates a completely new sales job where one did not exist before. The reexamination and/or deconstruction of the sales and customer relationship management processes results in a change in creating the need for new sales roles and new compensation plans to reward and recognize the employees in those roles.

This project provides a blueprint that will allow Arrowhead Credit Union to clarify and confirm the new sales accountabilities associated with sales jobs within the organization, and to design and implement compensation plans that are successful and aligned with the company's business objectives.

ACKNOWLEDGMENTS

In 1997 I was hired by Arrowhead Credit Union to help facilitate their already changing culture, from that of a service organization to one of sales and service. The company wanted to take steps toward a sales culture, embracing the need to provide their membership with many resources, including those outside the financial institution, to help their members build financial wealth. As a successful sales executive in a different industry, I saw this as a challenge, and one of gratitude. I have an enormous amount of respect for Arrowhead Credit Union, the employees and its business philosophy.

I want to thank Anne Benjamin, for seeing in me the strength and endurance to take on this challenge with her. We have taken many small steps toward this change and the area of sales compensation is the most delicate. Without the help of Margaret Boni and the support of Larry Sharp and the senior executive staff there would be no need for this project. This paper is the blueprint in our next step; to continue to create and define a sales incentive and compensation plan within our sales culture. Thank you to all the staff who have expressed their

appreciation for the small steps we have taken so far, and their hard work that have paved the way for larger steps in the future.

I would also like to acknowledge Dr. Mo Vaziri. He is very loyal and committed to the success of Arrowhead Credit Union and its staff. If it were not for his continued support throughout the MBA program I would not have earned this degree. A special thank you to Mr. Linvol Henry and Cal State San Bernardino for providing the executive staff of Arrowhead Credit Union the opportunity to be the first Executive MBA group. And a final note of gratitude to Dr. Conrad Shayo, he provided his time in overseeing this project, it's write-up and necessary feedback to give it the depth it needed to make it successful.

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BACKGROUND LITERATURE

CHANGES IN THE FINANCIAL INSTITUTION INDUSTRY

Each new-year brings with it the promise of greater things to come and the wisdom of lessons learned in the previous 12 months. This January, brought even bigger significance than previous years: the beginning of the next millennium and a new world of opportunity for banks longing for a broader financial services playing field. So, when the next generation of banking industry professionals looks back on the 1990's from around 2015 or so, it's very likely they'll refer to the last decade of the 20th century as the era of "merger mania" in banking (Perkins; 1999). As federal and state banking laws loosened in the early to mid-nineties, a wave of mergers began to sweep through the industry - and that trend continues today. Mergers of large banks have changed the landscape of the financial industry. The first nationwide bank in the U.S. was created by the 1998 merger of Bank of America with NationsBank, and that merger trend continues (Perkins; 1999)

When the branching laws changed in 1994, and state regulations rapidly fell in line with those relaxed standards, the doors were opened wide for potential mergers. As Thomas L. Doorley III, founder and senior partner of Braxton Associates, the global strategy practice of Boston-based Deloitte and Touche Consulting, points out in his book, Value-Creating Growth, large banks increasingly turned to mergers and acquisitions as the key strategy to achieve growth. "There has been more large company merger activity in financial services than in any other industry we've researched of the past few years." (Doorley; p.1) "Today, the average financial institution in the U.S. is about four times as large as it was just five years ago."(ibid., p.1) Doorley sees two key reasons for the merger trend in the banking industry and the creation of even larger banks: Economies of scale, and economies of scope.

"Merger mania" has rolled through every major metropolitan area in the country, changing the structure of local banking through consolidations - and thus causing the disappearance of banks that have long been traditional pillars of local communities. (Perkins; 1999) There have been dire forecasts from a host of banking insiders, financial experts and economic researches about the effects of this unprecedented era of mergers in the banking industry. There have been claims that bank mergers will create reduced competition, by leaving a few very powerful banks that will use their substantial market power to set higher fees for various transactions. They will tighten credit lines for small-to-medium businesses, and create a stranglehold on financial markets that would essentially drive small, community banks out of business. (Perkins; 1999) But are megabanks really squeezing out competitors like small, independent banks and even credit unions?

Today megabanks are using the "one-stop shopping" approach and information technology. "These big banks are trying to sell you and me a whole suite of products, and they're using IT to help sell those products to us." (Doorley; p.3) "Years ago, you were essentially invisible to a bank when you had different account with them." (ibid., p.3) Now, through data warehousing and data mining, these big banks know who their most important customer are, what they're using it in the product line - and also what other products they can target to sell to those customers.

The wave of mergers has created a banking industry that seems to be polarized toward both ends of the spectrum - huge megabanks and small community banks - leaving very few medium sized financial institutions. (Perkins; 1999) "The trend is toward very large companies and small niche players. Anything in between - a good sized regional bank, for example - ends up being a very likely candidate for acquisition." (Doorley; p.5)

Raymond J. Gustini, a banking financial specialist at the Washington, D.C. law firm of Nixon Peabody, sees this trend toward polarization continuing. "This approach is just going to help community banks prosper. They can fly under the radar screen of the big banks, selling to and serving those types of customers that the larger banks simply don't want - or don't see as profitable. (Gustini, p.3)"

A major factor in the philosophy of community banks is a dedication to customer service and the ability to sell product. They need to evaluate their current sales environment and change the way they do business. No longer is it profitable to wait for the customer to inquire about opening an account and the possibility of selling other products with it. Instead, they need to work hard at understanding their market, then picking the right niches that they can best compete. The increasing availability of technology bodes well for community banks trying to sell the right package mix of products and services to its particular market niche (Perkins; 1999). "Small banks have the 'personality' factor working for them." (Gustini, p.5)

> "They can attract the customers who really want that direct relationship with a bank. But small banks also have to move toward outsourcing and building strategic relationships when they find they need to offer brokerage, insurance or high net worth services."

Doorley, believes strategic outsourcing will make specific smaller banks able to compete against banks of any size - especially if they can use outsourcing to reduce transaction costs.

> "If through outsourcing, a small bank can make the issue of cost go away, you're left with the deciding factors of product scope, the sales environment and whether the banking

experience leaves you feeling like a person rather than a number." (Doorley, p.6)

So if a small bank can reduce costs, enhance the selling approach, and they have already won on the banking experience issue, it comes down to finding the right market niche . . . then 'niching' the large banks to death (Perkins; 1999).

CORPORATE CULTURE

The business world is growing more competitive; there is an increased challenge to ensure greater consistency between the characteristics of their market and their corporate culture. They must also make sure that the sales management systems focus on their customers' needs and not there own (Colt 1998). Experience has shown that if customer needs and cultural values are not in alignment, sales system components will reinforce values that are inconsistent with those of customers and impair the effectiveness of the sales organization. Indications of sales management programs that are failing to reinforce appropriate values are shown in Table 1-1 (Colt 1998).

The first step in strengthening the line between the customer and the corporate culture is to determine customers' specific needs, customer segmentation and the company's competitive strengths and weaknesses. By analyzing the market, you will find weather or not your sales management programs are inconsistent with each other.

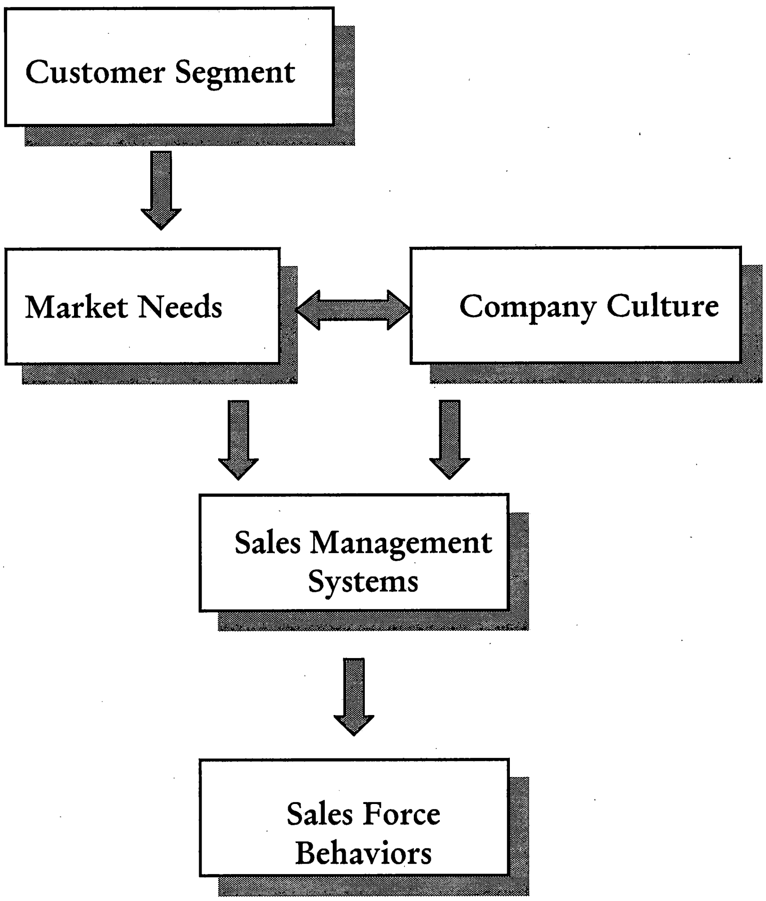
Table 1-1. Indications of a Dysfunctional Sales Management System

Indications	Weak System Components
▪ Sets unattainable quotas ▪ Ignores historical sales and market potential ▪ Underemphasizes representative input	**Goal and quota setting**
▪ Contains little customer-related data ▪ Cannot track desired performance ▪ Fails to identify profitable customers or products	**Management Information**
▪ Applies awards inconsistent with productivity ▪ Provides no motivation to exceed quota ▪ Fails to focus selling activity ▪ Generates uncompetitive earnings	**Incentive compensation**
▪ Permits weak sales management skills ▪ Produces poor product knowledge ▪ Provides incomplete assistance with customer applications	**Training**
▪ Fails to distinguish more important prospects ▪ Encourages misuse of selling time ▪ Fails to track how selling time is actually used	**Account planning**

Source: The Sales Compensation Handbook, 2nd Edition

The second step, because of the relationship between market needs and corporate culture, is to require complementary sales management systems to communicate and reinforce these values, shown in Figure 1-1.

Figure 1-1. Influence on Sales Management Systems.



Source: The Sales Compensation Handbook, 2nd Edition

As market characteristics change, many companies recognize that their cultures are no longer consistent with their customers' needs. Some of the major external forces driving market changes today are:

- Significant changes in the global competitive environment.
- Consolidation, acquisitions, and mergers of competitive companies seeking scale.
- Rapid evolution of technology.
- Government-directed deregulation, such as the financial services, telecommunications, and utilities industries. (Colletti; 1999)

Once the company decides that cultural change is necessary, the sales incentive compensation program can be an important agent in affecting that change. This change will tell the sales force specific values and behaviors are required for success and that this change will serve both the customer and the long-term success of the company.

There are some important sales force compensation design issues to consider when developing the incentive program:

- *Consistency with the corporate strategy*. Objectives set for the sales force must parallel and communicate the company's marketing and financial goals. The incentive program can be used to reinforce the cultural change and the goals can be clearly incorporated into the incentive program. It could outline such factors as revenue, market share, or profit growth, team selling activities, specific products or markets, product or customer emphasis, and qualitative versus quantitative selling (Colletti; 1999).

- *Defining and balancing performance measures.* These measures might include volume, profit, product line activity, customer market share, or customer satisfaction. The number and balance of these factors will be dictated by the marketing priorities. These performance measures, if carefully structured, can focus the selling effort on the competitors' weak spots and shape the selling behavior to serve the specific needs of the customer (Colletti; 1999).

- *Variability of the sales force compensation.* How much variable compensation is developed within the program will depend on how much the sales staff influence customer buying decisions. A careful study of the interaction between customers and salespeople will reveal the value of the relationship (Colletti; 1999).

- *Frequency of award calculation and payment.* A key design factor is the buying rhythm of the customer. It is important to factor in the length of the sales cycle. Some customer buying rhythms are immediate and others take long periods of time and sales contact before the buying decision is made (Colletti; 1999).

ELEMENTS OF SALES INCENTIVE PROGRAMS

A sales incentive program is like a jigsaw puzzle. Miss a piece and you don't get the picture. Put all the right pieces in place, and you create success (Neuberger; 2000). What are some of the pieces of a successful incentive effort? Goals, budget, awards, promotion, tracking and delivery each play an important part in an overall incentive effort. By overlooking any part or neglecting to fit each into the big picture, a sales manager takes a high-stakes gamble, both in time, effort and in results. Map out unattainable goals and no one will qualify for your eye-popping award (Neuberger; 2000).

Before launching a sales incentive program, consider the company's business objectives and the current strategies in place to achieve them. Do you have the time, funds and resources to run a successful sales incentive program? Most traditional sales incentive programs are time-consuming and sometimes exhausting if built and run in-house. If the program is to run in-house, the organization has to create a position whose sole responsibility it is to design, implement and administer the program. The program needs constant attention, and as changes within the company and sales force occur, the plan and contests must change with it (Berger; 2000). There are also a number of respectable incentive agencies that can manage the program for a fee.

SET THE GOALS

Meaningful goal setting involves four main factors:

- Pinpoint what your business wants to achieve. The business objectives should be realistic, attainable and measurable. If your objectives follow all three of these guidelines, you can almost guarantee a successful program (Fee; 1999).

- Translate goals into measurable targets, ideally within a defined time frame. You might shoot for a 25 percent increase in annual sales. Or a 20 percent boost in activity during a normally slow quarter.

While the target must challenge, the program will fail if participants view the goals as beyond reach. Consider market obstacles, geographic factors, company history and the individuals' records.

- There must be a level playing field for everyone so the rookies feel like they have a chance against the superstars. If all your sales people feel they have a chance to succeed, you'll have a successful program. Tying goals and performance to an index that takes into account both dollars and percent increased can level the field among your players.

- Align the goals with company objectives and other internal factors. An incentive won't cure company ills, if sales support falls short or your product has a serious flaw. Invite participants to help shape goals - a move that gives the sales team a sense of ownership. Asking people for input is extremely helpful, and can help with the buy-in of the goals. Ask your sales force to give projections. There are times when management will underestimate the goal and salespeople will set their targets higher (Fee; 1999).

BUILD THE BUDGET

Ideally, an incentive program pays for itself out of the extra revenue produced by the new business. Generally a budget should be 5 to 10 percent of the new sales revenue. When slicing up the program allocate 5 to 15 percent to administration, 20 to 25 percent to promotion and communications and 60 to 90 percent to awards.

Keep in mind that incentive programs carry no average price tag, only estimates. There is no typical budget because there's a greed factor. Some companies don't want to spend too much. Or it may have to give away 60 percent of incremental sales the first time to make it work. (Neuberger; 2000). This is money that you wouldn't have had. Incremental profits pay for the program, and any company or manager who doesn't do it this way may as well gamble (Neuberger; 2000).

SHAPE THE PROGRAM

Devise a structure to reach your goals within your budget. A cost-conscious company may opt for an incentive effort that reward only the top achievers, such as the 10 whom show the biggest improvement. The pluses: the incentive program is easier to budget, has more controlled monetary exposure and is simpler to run. The minuses: the program usually recognizes the expected star performers, but often de-motivates the average achievers (Neuberger; 2000).

Instead, look for a more open-ended approach. Offer a reward to everyone who reaches established goals, and you're offering the recognition to the most participants. The pluses: this type of effort is highly motivational, with people vying against their own record and generally producing better results. The minuses: it's more difficult to forecast cost and deliver awards (Neuberger; 2000).

As an alternative, try sparking the team by awarding on several levels. By offering three or more targets, top performers and average performers alike will push themselves. The usual standouts stretch for the largest end result, while the rest shoot for a broad spectrum of more modest yet appealing items.

Everybody should be a winner; you will have better results. A good program is one where everyone can win something - all participants can have sales about their norm. Keep the rules and conditions simple, understandable and easy. You want your salespeople to know how to direct their efforts to achieve the goals and get the reward (Neuberger; 2000). Beware of loopholes, the rules must be written for clever and resourceful salespeople. The rules should say the product must be shipped, paid for and not returned (Neuberger; 2000).

A sales incentive program can act as an agent of change. It can direct the actions and attitudes of the sales force through incentive measures. A carefully designed incentive program can ensure proper sales force focus on market needs successful achievement of company goals, and continual reinforcement of new values.

THE INCENTIVE STRATEGY

Most companies today have costs under control and are looking at business growth as a top priority (Colletti; 1999). Managers have therefore concluded that the key to future profitability and increased shareholder value is growing the top line (Colt; 1998). Creating new markets, winning new customers, and continuously improving processes to retain current customers can accomplish this. Companies are now motivated to implement new approaches to sales and customer relationship management, and compensation is one component of an effective sales management system. However it is often the one management looks at first when they are looking to make a change or find a solution to a problem (Colt; 1998).

How do you design an incentive program that actually motivates people to sell more? The time-honored answer is to throw money at them. In a survey of sales managers conducted by the Incentive Federation, (an alliance of incentive product manufacturers, industry suppliers, and associations), 63% of the respondents said that cash - easy to give and easy to administrate - was the incentive that most of their salespeople preferred (Canali; 1999). But this approach can have limitations. When incentive programs are primarily extra commissions tied to sales goals, they can sometimes become disincentives. They are viewed as compensation and lose their effectiveness as motivators (Canali; 1999). This extra cash can become invisible, or frittered away, in the usual grind of bill paying, and it lacks its value.

To sustain that value, many sales managers have modified their incentive programs to reward top performers with travel or merchandise not just money. According to the Incentive Federation survey, businesses are spending more than $20 billion annually in these areas. The travel option not only has value, but also makes good economic sense. A paid trip to Chicago or Hawaii, is usually perceived as having much more value than the amount of money that the company normally spends on it (Canali; 1999). It is possible to make the same point about merchandise incentives - as long as your talking about a possible Rolex and not a coffee mug.

No matter what products or travel packages managers choose as incentives, these goodies by themselves are seldom enough to ensure that a sales team will be motivated toward optimal performance. Managers also have to build in personal recognition - the intangible "high" that must accompany the reward. In doing this, you give the high achiever high visibility (Canali; 1999).

The best way to accomplish this is through constantly promoting a program. Announcing at the beginning of the year a free trip to the annual sales meeting for anyone who exceeds quota is a good strategy, but it is only a start. The results of an annual campaign will be much higher if there is monthly or even weekly promotions of the incentive as well as frequent reports on individual's progress. (Berger; 2000)

If this makes the incentive program sound like a heated competition, so be it. Salespeople are a competitive breed, and regular announcements of who's out in front can make revenue providers really take off. Recognition at the end of the race is critical, too. Nobody's going to run for the roses if the Derby stands are empty. So, when the incentive program ends and the top performer books that flight to Hawaii, be sure to write it up in the company newsletter - and have the executives come down from the stands to congratulate the winner (Canali; 1999). If you leave out recognition you fail to maximize the dollars that you've spend on incentives.

To be effective, all of the components of the sales system, including compensation, must be built on a solid foundation. It is important to first develop a clearly defined business strategy. This will bring together key elements of the overall company strategy and the customer segmentation analysis results into a concise selling strategy and marketing plan. This clear strategy can be answered by four primary questions that will ensure the company's business and sales objectives are met:

1. To which customer groups will we sell?

2. Which products or services are these customers likely to buy, and at what price?
3. Through which channels of distribution should we focus?
4. How will we establish our competitive differentiation?

In the end, a clear go-to-market strategy provides each channel and each sales position with clear selling priorities: preferred customer segments and preferred mix of products to be sold to each (Colt; 1998).

Regardless of the type of business, there is an end-use customer for every product or service sold. There is an emphasis being placed on managing the total customer experience, from end to end. This means that jobs that once had no sales role must now assume one (Colletti; 1999).

Building a sales incentive program can be easy; building one that works is much more challenging. For example, an effective sales incentive program should be linked to key business objectives: strategies, tactics, timelines, etc. Building and running a sales incentive contest in a vacuum (without regard to company goals or input from the sales team) can guarantee the contest's downfall before it gets launched (Silver; 2000). Timing and synergy within the organization are the keys to the contest's success.

Also, a successful program must be structured in a way that echo with participants. A sales contest, for example, has to jump off the page at you. It has to be exciting, fun, stimulating and, most of all, motivating (Silver; 2000). When planning contests, sales managers need to provide:

- Achievable and reasonable contest targets.
- Rules that are easy to follow and understand.
- A theme that, "cranks them up."
- Rewards that are viewed as valuable by the salespeople in the contest.

A powerful program also needs momentum. To do all this, the sales manager must communicate the benefits and rewards of the initiative clearly at the outset and continue to pump people up throughout the contest (Silver; 2000).

In the end, a well-built sales incentive program adds tremendous value to a company. It can improve lagging sales numbers and morale, boost productivity and generally create a more motivated workforce (Silver; 2000).

To overcome competitive threats, companies must continually increase the effectiveness of all employees who come in contact with customers and prospects. In particular, they must increase the effectiveness of the way the business rewards and recognizes those employees for their contributions to company success.

Companies require the ability to design and redesign their compensation plans quickly and meet and anticipate new business realities. The next three chapters will help you understand and use the concepts and techniques essential to compensating sales representatives effectively in changing business environments.

CHAPTER TWO

PREPARATION AND DESIGN

IDENTIFYING SALES ROLES

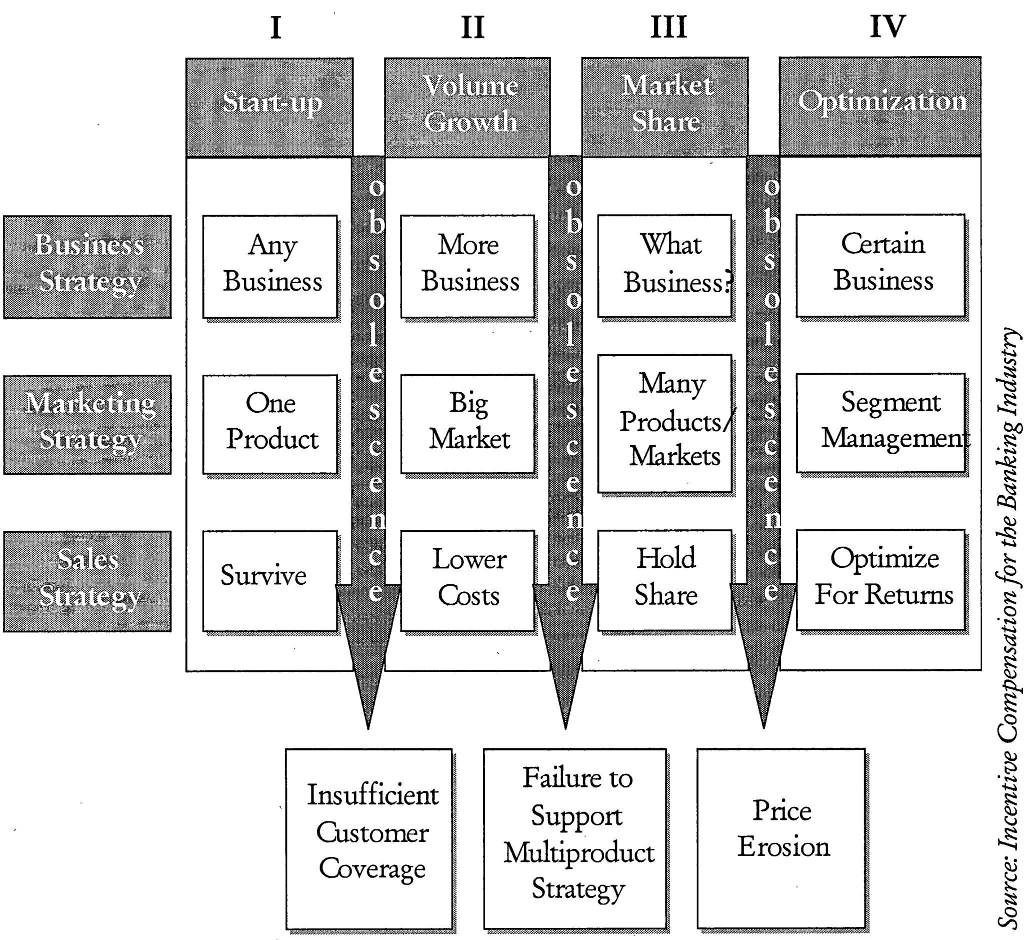
An understanding of the company's overall business objectives, its marketing strategy, and the requirements of the various customer segments it serves, must drive the design of a sales compensation plan. The intersection of these factors ultimately defines the key selling roles for a given sales job. The business objectives define the ultimate benchmark for the measurement of success or failure for the company (Colletti; 1999). The marketing strategy governs the products and services, technologies, market segments, distribution channels, and distinctive capabilities the company must develop and the type of customers it must attract and retain to achieve its business objectives (Colletti; 1999). Customers themselves, each with specific vendor requirements and selection criteria, govern the attributes a sales force must exhibit to be successful.

Over the last ten years there has been a notable movement to formalize the involvement of other, non-sales employees in the process of doing business with customers. The "Wal-Mart-ization" of business is largely responsible for this trend. It started in the late 1980's when Procter & Gamble implemented its first customer team in response to Wal-Mart's requirements for sales coverage through a single point of contact, rather than dealing with thirteen different divisional sales forces. Regardless of the type of business, the Wall-Mart paradigm of doing business is changing customer relationship management (Fee; 1997). It does not matter that a company is not a retailer; there is an end-use customer for every product or service sold. The increasing emphasis being placed on managing the total customer experience, from end to end, means jobs that once had no role in sales must assume a sales role (Colletti; 1999). The fact that an increasing number of company jobs play a part in the sales process creates the need to understand how to motivate and reward these employees for their contributions to sales success.

There may be a variety of sales jobs within a sales organization: national account sales representative, territory sales representative, product sales representative, dealer sales representative and so on. After examining these many roles of one or many sales representatives, you must define specific approaches to compensation that match the success factors of each role. These success factors often determine the performance measures that form the sales incentive plan (Colt; 1998).

Companies need new sales roles when revenues are not growing rapidly enough, new products are not selling well enough, new customers are not being acquired fast enough,

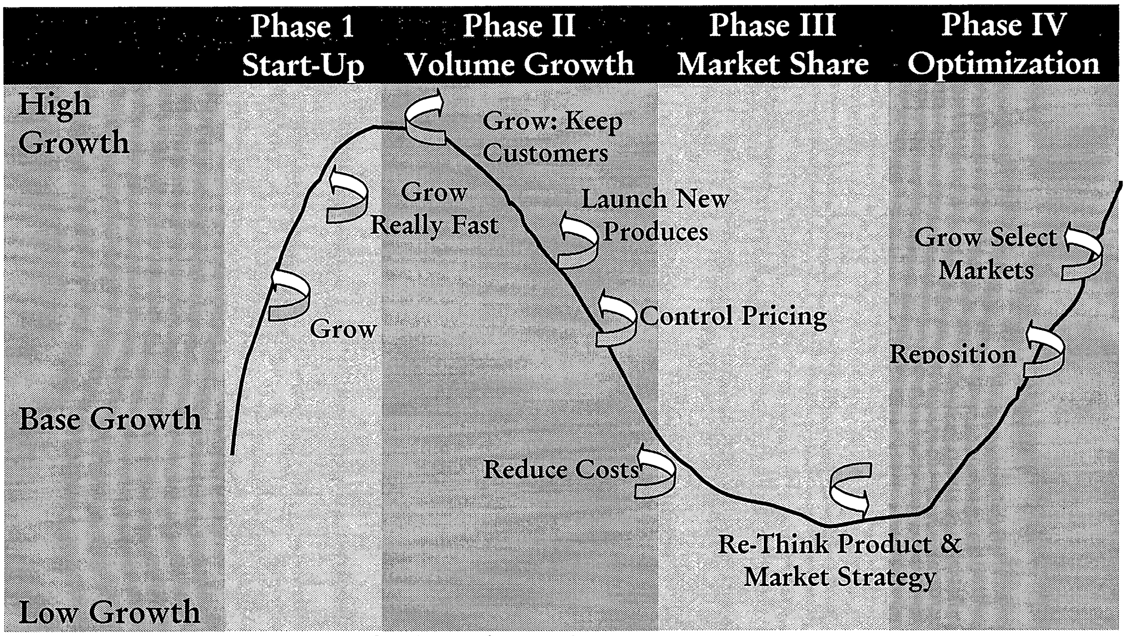
Figure 2-1. Pattern of business growth.



or all three. Many companies have been informally creating new sales roles as more and more employees interact with customers. To understand the need for new sales roles, management must understand how a company moves through the four-phase growth cycle (Cichelli; 2000). As seen in Figure 2-1 and Figure 2-2. These phases are the start-up phase, volume growth, market share growth, and optimization. As companies move through these phases, they must develop new competencies to sustain profitable top-line growth, unless they do so and move from one phase to the next, they shrivel and either die or are acquired. In each phase, the sales organization's role must change and its people must adapt to new circumstances. The competencies, in fact, develop a phase in the growth cycle. Even those firms in the start-up or volume growth phase - times when revenues are growing, new products are selling, and new customers are being acquired - can profitably add new sales roles, both to prepare for the next phase and to use existing resources more effectively (Colletti; 1999). Even when business is booming and healthy margins mask inefficiencies, it does not make sense to have an expensive sales resource spending time on small accounts.

Companies in the market share growth and optimization phases must add new sales roles to survive. Without such a shift, the sales organization grows obsolete, margins fall, revenues slip, new products fail, and customer go to other, more efficient suppliers. With

Figure 2-2. Mission and Sales Focus – Evolves



Source: Incentive Compensation for the Banking Industry

Sales Objective	Top Line Growth	Revenue Mgmt	Price Mgmt	Segment Growth
	- Cash Flow - "Sell or Die"	-Get new customers -Keep customers -New products	-Protect Base -Price Mgmt -Reduce Costs	-New Value Position -New Markets -Specialization

such a shift, the sales organization begins to specialize and others with the company assume sales roles. The company no longer sells the way it wants to sell, it sells the way customers want to buy (Colletti; 1999). Along the way, companies find that their traditional sales compensation plans have become obsolete.

THE BLUEPRINT, KEY CONCEPTS IN INCENTIVE COMPENSATION

Whether the person directing the sales incentive program is a sales representative, sales manager, HR manager, corporate executive or business owner, they will be confronted with a myriad of challenges and opportunities associated with the design, implementation and ongoing management of the company's sales compensation plan (Berger; 2000). Consider some of these questions about the plan and to what extent they affect their job and the business:

- What are the elements of an effective sales compensation plan?
- Does the plan motivate the sales staff in the direction of the desired business results?
- From a technological perspective, are there any constraints in the plan that make it difficult to

implement and manage?

- Should the plan include incentive earnings and a base salary or just salary?
- Is there the proper mix of base salary to incentive earnings?
- Should there be a different pay-out for new business versus existing or repeat business?
- Is the plan designed to achieve the desired financial results?
- How can I compare the plan against my competitors?
- How do I turn the sales compensation plan into a strategic plan that will drive top and bottom-line performance?
- How do I best communicate changes in the plan to the sales staff?
- Are we earning the most we can from the plan?

Many sales representatives, sales managers, corporate executives and business owners face the same challenges and opportunities relating to their sales compensation plan (Colletti; 1999).

Fortunately, there are solutions that will enable them to achieve the desired results, and it may not be as difficult a process as they may think. The ultimate goal is to design a compensation plan that suits the needs of the entire company, not just the sales organization.

SALES COMPENSATION PLAN PREPARATION

So how do you design a sales compensation plan that will achieve both the desired revenue and financial results? This is not always a simple task, and there are many factors to keep in mind.

Form a project team with people from each of the related departments to examine the overall impact of the current and/or proposed compensation plan in Table 2-1.

In order to create the best possible plan, it is important that the group have a clear understanding of the business results the company must achieve. Most likely, that will include key performance measurement areas such as revenue growth, new product or service offerings, expense ratios, profit margin, ROI and others. Typically, sales expense is expressed as a percentage of total revenue and can be targeted at a desired level that ensures overall profitability (Colt; 1998). Sales

Table 2-1 The sales compensation design team.

Function	*Role*
Customer Service	Ensure that the plan is consistent with the new role. Ensure that the plan is motivational and a useful management tool.
Finance	Assess affordability of all levels.
Human Resources, Compensation	Provide management and analyst. Ensure that the plan is consistent with general practice, ethical, and implementable.
Information Systems	Provide programmer or analyst. As an observer will confirm/develop systems capabilities now and in the future.
Marketing	Provide management or field marketing management. Provide point of sale material to support the sales focus and business objective.
Sales	Provide branch management, lead sales staff. Gain input from field personnel, Ensure that the plan is consistent with the sales role. Ensure that the plan is motivational and a useful management tool. Lead roll-out and communication.
Sales Administration	Provide Executive sales management. Confirm/develop and help support the plan from the top management level.

Source: Compensating New Sales Roles

compensation will often represent the lion's share of that expense. Keep in mind that, while it may be tempting to adopt a plan that worked in another company, it is important that you create one that is best suited to the unique business and marketing strategies of your company.

BE CREATIVE WHEN REWARDING EMPLOYEES

Your front office sales force is not the only staff involved in the sales process. There are many back office functions that have a great deal of involvement in the outcome of a sale. These employees may not be a part of the sales compensation plan, however they should be rewarded for their effort in supporting the sales force.

When it comes to rewards, most managers feel that the only thing that their employees want is more money. While money can be an important way of letting employees know their worth to the organization, it doesn't tend to be a sustaining motivational factor to most individuals. That is to say, salary raises are nice, but seldom do they motivate people to do their best on the job (Nelson; 1998).

Another limitation to money as a reward is that in most organizations, performance reviews and corresponding salary increases occur only once a year. To motivate employees, managers need to reward achievements and progress toward goals by employees much more frequently than once a year. Indeed, rewarding performance needs to take place on almost a daily basis.

More times than not, what is more important to workers are such intangibles as being appreciated for the work they've done, being kept informed about things that affect them and having a sympathetic manager who takes time to listen to them. None of these intangibles are very costly, but they all do take the time and thoughtfulness of a manager who cares.

How then can a manager provide rewards that are more frequent and personal? The answer is simple - be creative. Take time to find out what specifically motivates and excites each of your employees, and then see what you can do to make those things happen.

When one of your employees has put in extra effort on a key project or achieved a goal you had mutually set, immediately recognize the achievement fittingly in a unique, memorable way. You will find that the more creative and unique you are with the rewards, the more fun it will be for the employees, yourself and others in the organization.

Rewarding employees for exceptional work they've done is critical to keeping them motivated to want to continue to do their best. Although money is important, you can potentially get more benefit from such personal, creative and fun forms of recognition (Nelson; 1998).

SALES COMPENSATION PLAN DESIGN

With that information in hand, the next step is to begin the actual design process.

When designing an effective sales compensation plan, you will likely have to make some decisions about the plan's overall structure:

- Will it offer a base salary only, or will it be a salary and incentive plan?
- If it's the latter, what percentage is each component of the total targeted income?
- Will the plan be commission?
- Will incentive earnings be expressed dollars or as a percentage of base salary?
- How do you endure that the plan meets your financial criteria?
- Does it meet the needs of the entire company and not just those of your sales organization?
- Is the sales compensation plan competitive in the marketplace?

- Does it allow for the profitable growth of the business?

Only the company can best decide which of these qualities meet the criteria. Each department represented in the planning team has different needs and objectives, and it's important to understand and incorporate all of them (or as many of them as appropriate) into the compensation plan (Colt; 1998). Here are some examples of what departments typically want:

- Salespeople want a competitive pay plan and need to be motivated to be paid fairly for what you want them to do.
- Sales managers want to achieve results, stay within budget and keep the sales force excited about company products and services.
- Executive-level managers or business owners want to ensure profitable growth of the business while at the same time paying salespeople fairly and equitably for the results they achieve.
- HR managers want to feel confident that the compensation plan is competitive in the market.

- Finance managers want a plan that is fiscally prudent (Colt; 1998).

Hence, the value of a multi-functional team that will not only design the best possible plan, but also endure its ultimate success.

Given the divergent needs of each department, it's a good idea to design a few different plans and test them against a "what if" scenario to ensure that you are meeting the overall needs of the business. You could use historical sales performance data, as well as projection of future results to forecast your total sales costs. This will enable you to create a plan with universal appeal and afford you some options in the event that you need to make revisions to the original plan (Colletti; 1999).

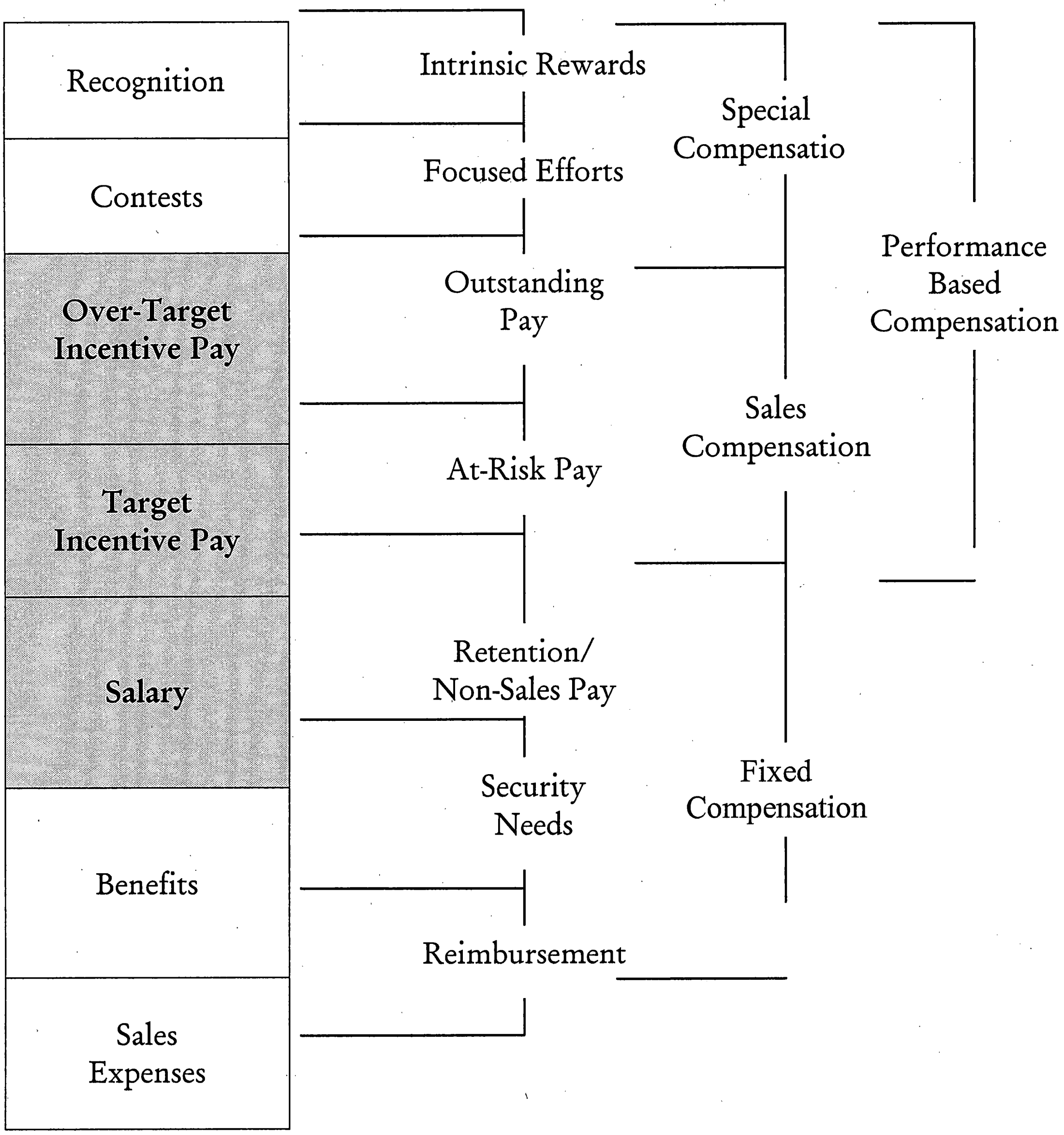
Be sure to look for any unintended behavior that may result from the plan, and make the necessary adjustments to either reduce or eliminate it. Also, it is important to keep the plan fairly straightforward and simple. You cannot incent every area of sales responsibility with money. Focus on only those results that flow directly to the bottom line.

Top management is always concerned about making a significant change in the way the company pays employees, particularly salespeople. Thus, is it essential that the compensation for the salespeople align job success with both equitable pay and accomplishing the company's business objectives. The process a company employs to identify and define sales roles must be paralleled by a similar process to design and implement a compensation plan that motivates, directs, and rewards success in those salespeople at the time the firm's incentive plan is introduced to them (Cichelli; 2000).

SALES COMPENSATION: WHAT IS IT?

Sales compensation is the pay opportunity available to employees in customer contact jobs. Typically, companies pay sales compensation to only those employees because they interact with and persuade customers to do business with the company. Figure 2-3 illustrates the components of total remuneration available to these employees and how sales compensation fits into the overall picture (Colt; 1998).

Figure 2-3. Total compensation.



Source: Incentive Compensation for the Banking Industry

Sales compensation includes both salary and incentive pay. These two components of cash compensation can motivate and reward new behaviors that success requires. Salary, the fixed portion, reflects labor market levels, seniority, skills, and performance over time. Incentive pay, the variable portion, rewards the salesperson for achieving implicit or explicit goals over the short term (usually a one-year period).

The sales compensation plan cannot - and should not - do the whole job of sales force motivation and recognition. Because directing, motivating, and rewarding a high-producing sales force is a constant and difficult challenge, managers are always looking for different and more effective ways to inspire pride, build a sense of accomplishment, and convey appreciation to the sales force. Therefore, sales contests and recognition programs can motivate and reward outstanding performance. Using a non-cash program, like a sales recognition plan that rewards with either quality merchandise or a desirable trip to a resort destination, is much less likely to create monetary envy, particularly in situations where setting realistic sales objectives is not possible (Colt; 1998).

Typically, a sales compensation plan does not include intrinsic job value, benefits, perquisites, or expense reimbursement. The values of these programs are more critical to attract and retain talented personnel. Sales compensation programs are designed specifically to ensure that the fixed and incentive portions of the programs are aligned with the sales job.

In the past companies used sales compensation as a way to "manage" sales people. However, successful companies today find that the incentive program cannot (and should not) serve as a surrogate manager of the sales organization. Rather these companies employ a design process that uses the internal skills and knowledge of the sales, marketing, finance, and human resources divisions (Cichelli; 2000).

LINKING COMPENSATION TO THE SALES STAFF

The design process that links compensation to new sales roles has ten steps, illustrated in Table 2-2. These ten steps involve four phases of work:

Phase A: Clarify sales strategy. The first step in this phase is the process of defining and documenting the company's business objectives and the roles required to meet those objectives. Identifying jobs required in the sales process is the foundation for assessing eligibility for sales compensation. This should include both the "go-to-market vision" of the top executives and the financial objectives that the business must achieve for shareholders, partners, or other stakeholders. The second step, defining sales strategies is the key to unlocking the sales roles required (Colt; 1998). A sales strategy

Table 2-2. Incentive design process.

Phase A: Sales Strategy	**Step 1:** Confirm Business Objectives **Step 2:** Define Sales Strategy **Step 3:** Confirm Job Roles and Eligibility
Phase B: Financial Requirements	**Step 4:** Establish Compensation Levels **Step 5:** Develop Funding Plan
Phase C: Performance Measures	**Step 6:** Identify Performance Measures **Step 7:** Confirm System Capabilities
Phase D: Program Details	**Step 8:** Set Goals **Step 9:** Develop Incentive Plan Mechanics **Step 10:** Develop Transition and Communication Plan

Source: Compensating New Sales Roles

is a plan of action to match the right type of resources to business opportunities. The Sales Strategy Matrix^{sm} (Figure 2-4 and Appendix D) provides a framework for defining the types of interactions required to do business with customers and to determine the type and level of sales resources required to sustain or acquire a revenue stream (Colletti; 1999). It defines who should do what (you don't want account executives doing what customer service representatives can do more effectively and at a lower cost). Second, it suggests the role that ought to be eligible for participation in sales compensation.

Figure 2-4. Strategy Matrix[SM]

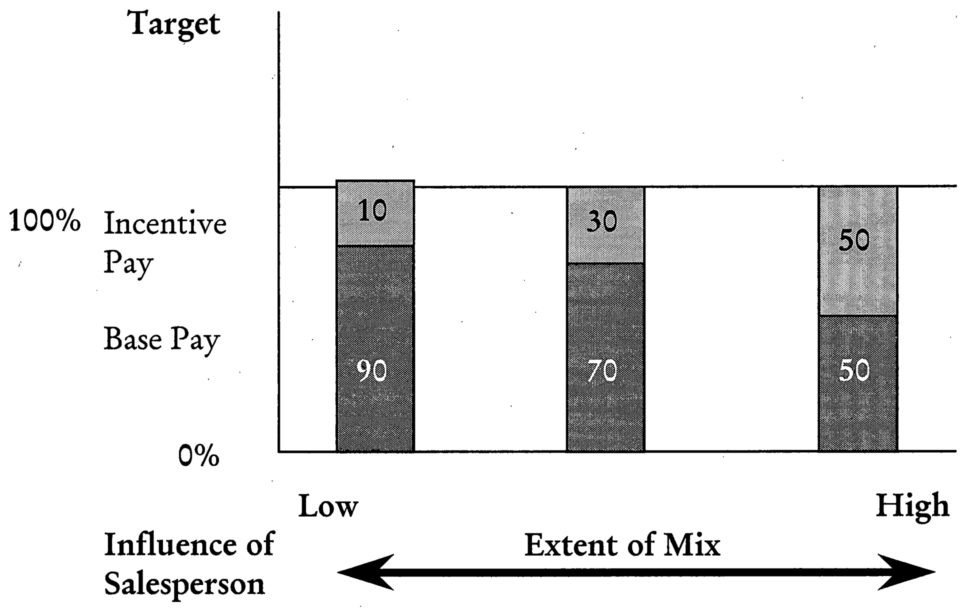
Buyers	Current Products	New Products
Prospects	**Conversion Selling** "Grow Base" *(Prospects or Competitors Current Products)*	**New Market Selling** "Develop Markets" *(New Products or New Customers)*
Customers	**Maintenance Selling** "Protect Base" *(Retention of Current Product to Current Customers)*	**Leverage Selling** "Penetrate Accounts" *(Sell Those Customers New Products)*

Source:: Designing Compensation Plans for New Sales Roles

In Step 3: Confirm Job Roles and Eligibility. Prior to embarking on the sales compensation design process, many companies find it useful to rate the degree of change in the job. Once the job has been confirmed, you should assess eligibility for participation in the sales compensation program. Typically, positions that initiate, persuade, and fulfill in the customer coverage process are eligible to participate in the sales compensation program. Line management positions that coach, council, direct and develop those involved in the customer coverage process are also generally included in a sales compensation program, rather than an executive pay program (Colt; 1998). Corporate philosophy is also a key factor in determining eligibility for participation in a sales compensation program.

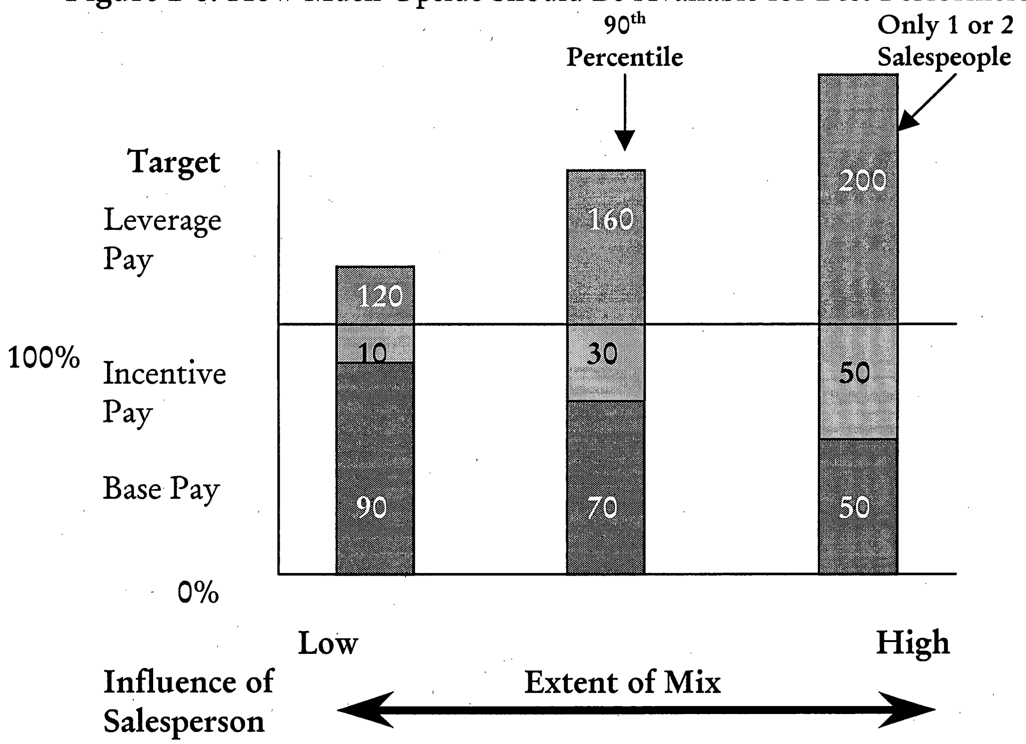
In Phase B: Define Financial Requirements the design process needs to address how much a compensation plan will cost as a percentage of sales, as well as, how to pay-out compensation earned under the plan. Step 4 Establish Compensation Levels. This task calls for a balanced approach to be sure that the pay levels are externally competitive (to attract and retain talented people), and internally equitable (to facilitate retention, career movement, and team cooperation). The cash compensation level for each job must also be large enough to motivate and to pay for performance to drive business results (Colt; 1998). You must balance mix (at-risk pay) and leverage (upside opportunity) against the position's ability to affect results. Figure 2-5 and Figure 2-6 illustrates how much of the salesperson salary should be at risk and how much of it is considered upside pay based on performance. Leverage is the upside earnings opportunity, or the portion of compensation placed at risk, because of the nature of the role of a sales job. Upside means the pay available to the salesperson for outstanding achievement - more than 100 percent of objectives (Colletti; 1999). The rationale behind leverage is that management establishes target total cash compensation for a sales job based on company philosophy and labor market pay levels. The total pay level reflects the competitive rate a salesperson earns for doing a fully effective job. When a salesperson takes the position it is almost always the case that some portion of the total pay is withheld or placed at risk on the premise that it will act as an incentive to the salesperson to deliver a certain level of results. Placing pay at risk should provide salespeople the opportunity to earn back not just the at-risk amount, but

Figure 2-5. How Much Target Pay Should Be at Risk?



Source: Incentive Compensation for the Banking Industry

Figure 2-6. How Much Upside Should Be Available for Best Performers



more. How much more is defined through the mechanics of leverage, which can be one to three times the at-risk pay (Colletti; 1999). Generally, when discussing the leverage with salespeople, managers express the upside as a multiple of the target incentive. For example, if the incentive opportunity is $10,000 with a two times the leverage, the upside incentive opportunity is $20,000 and the total incentive opportunity is $30,000.

Step 5: Develop a Funding Plan; the design team must have an answer for the senior executive, who says, "Great plan - how do we pay for it?" Funding a new incentive plan may be cased on merit increase budgets, or on other variable pay plans such as a corporate profit sharing plan. A job that will be eligible to participate in the sales compensation program may not be eligible to participate in programs for other employees, like a profit or gain-sharing plan (Colt; 1998).

Phase C: Identify Performance Measures: All phases and steps in the process of designing sales compensation programs revolve around one simple axiom: you get what you pay for. Defining appropriate performance measures and confirming the company's ability to track and credit results are critical success factors. Selecting and defining performance measures should include all the details management will require to track and measure success effectively and communicate expectations (Colt; 1998). Measures must be based on job roles and the salesperson's ability to impact result. Three out of four incentive plans apply quantitative (volume profit) measures, but emerging measures include qualitative factors such as team ratings and competency-based scores (Colt 1998). Any more than three measures becomes a complex and complicated plan, both to measure and track for the administrator and sales manager, but also more difficult for the salesperson to grasp. The plan will ultimately have a high risk of failure. In other words, keep it simple.

Step 7: Confirm Systems Capabilities. As management defines performance measures, the systems function in your company has a key role in making sure the measures defined can be implemented and administered. Plans that require intensive manual data manipulation frequently result in infrequent reporting, questionable calculations, and uncertainty about the plan's integrity (Colt; 1998). The company may have to enhance its systems capabilities, and to do so will require a well-documented and well-though-out rationale for selecting key measures.

Phase D: Develop Program Details, Step 8: Set Goals. Whether or not the program for your sales position includes a quota-based bonus, it is helpful to set performance expectations. Goals set at an account, territory, team, or segment level and are based on the performance measure defined by the team (Colt; 1998).

Step 9: Develop Incentive Plan Mechanics. The first building block that managers usually have to tackle in the detailed design process is "mix," since this establishes how much will be available for the incentive plan payout; example of specific plan illustrations are shown in Appendix E. To determine the mix appropriate to a specific sales position, you must look at several criteria including (Colt; 1998):

- The role of the salesperson (or any other customer contact job) in the sales process.
- Management style or practice the company uses in directing or working with the salesperson.

The salary/incentive ratio defines the manner in which compensation is delivered to an employee in a current or new sales position, that is, the percent of target total compensation paid in salary versus the percent at risk through the incentive pay arrangement. The exact salary/incentive ratio for a particular sales job is based on the influence of the job in purchase decisions (Colletti: 1999). Job definition, therefore, is the key to success in the plan design process. A clear definition of the job's role, responsibilities, and expected performance outcomes must be available before you design a compensation plan.

An example would be, the more important the salesperson is in the customers buying decision, and the shorter the timeframe to complete the sale, the more likely it is that the incentive component will be high. Industry surveys suggest that an average salary/incentive ratio is 70/30. Jobs paid with a 50/50 ratio indicate that the employee has a significant influence on the customer's buying decision, as reviewed in Appendix E. A job paid with a 90/10 ratio suggests that the employee is only one of many factors affecting the buying decision (Colletti; 1999).

A systematic approach to confirming the salary/incentive mix for each sales position is an important first step in developing the sales compensation program. The mix decision really defines what element of pay has the highest visibility to the employee in a sales job. A simple way to approach determining the salary/incentive mix is to develop a ratings chart similar to the one in Appendix F. The criteria should be customized to the company's own situation and the exercise should be completed with management to ensure that the mix for new jobs is consistent with actual job expectations and definitions (Colletti; 1999).

As a company begins to design an incentive plan for the first time the pay plans need to be motivational in value, and the plans may vary by individual; however, a reasonable rule of thumb is that 10 percent of base salary is a good starting point. Employees may perceive any less as "interesting," or "a nice reward," but it does not have the emotional impact of a higher percentage of pay at risk.

An example, for a $60,000 sales job with a 90/10 salary/incentive ratio, the target bonus would be $6,000 or 10% of salary. For most people, $6,000 would be sufficient to be motivational. Of course, it is critical for the plan designers to determine the right mix based on defined criteria, but there are no absolutes. An adjustment up or down of 5% may be the difference between a program that effectively support the sales position and rewards for success and one that does not. (Review Appendix E for examples of plan illustrations and techniques.)

Step 10: Develop Transition and Communication Plans. Even the best plan is ineffective when badly communicated. Key topics that a communication and transition plan must address include communication materials, sales management training, communication media, and timing (Colt; 1998). A plan that both managers and salespeople understand clearly will indicate the company's expectations of the new roles and motivate and reward success in the job illustrated throughout Appendix A.

Sales compensation should not define the sales job, nor should companies use it to manage the salespeople. Sales compensation, however, must be linked to the company's sales roles, and when the company redefines (or creates) sales jobs, it should also change the sales compensation plan.

CHAPTER THREE

IMPLEMENTATION AT ACU

BACKGROUND OF ARROWHEAD CREDIT UNION

As long as companies have been using sales programs, they've had questions about their effectiveness. It's an age-old dilemma, and one that continues to be a topic of meeting discussion at Arrowhead Credit Union (ACU). In 1999 ACU celebrated its 50-year anniversary, and in that fifty years it has undergone many changes.

The credit union first started in 1949 as San Bernardino County Employees Credit Union, a credit union that supported the San Bernardino County employees as a savings institution. In 1980 after several mergers and acquisitions ACU, then know as San Bernardino County Central Credit Union faced the possibility of being shut down, and was given 18 months to turn things around.

In 1981, Arrowhead hired Larry Sharp as the new Chief Executive Officer. He took advantage of the opportunity to focus on change. In the last nineteen years the credit union has experienced more than just a turn around, but huge and tremendous growth, due in large part to the vision of the CEO. It has taken many years to develop a market niche, and change the public perception of a credit union as more than just a place to save money. ACU has started its own broker dealer for investments (Arrowhead Investment Center) and a trust company (Arrowhead Trust, Inc.) to aid in long term retirement options for its member; standing behind the motto of "helping members build wealth." In the last five years the credit union has looked closely at name recognition, products and services to offer the member and becoming a part of the communities it services; to become the primary financial institution for its membership.

Now Arrowhead is looking at the next step in their sales culture, to truly evolving the organization into the member's primary financial institution. They have established the products and services, name recognition, and the respect within their communities. ACU is experiencing tremendous growth, where in the Inland Empire's financial community there are 35 credit unions, together they all hold $1.4 billion of the region's deposits in 1999, or 6.4% of the market. Arrowhead has seen very aggressive growth during 1998 and 1999 from $253 million in assets at year-end 1997 to $344 million in 1999, or a $91 million dollar increase. ACU is now the 13th largest financial institution in the Inland Empire behind the four mega-banks, the eight mid-sized banks and the largest of the smaller banks. The deposit growth has been in the double digits including a very rapid 19.5% in 1999. As a result, its deposits have grown much faster than those of the Inland Empire as a whole; or 19.5% compared to -2.4% in the Inland Empire year-end 1999. (Husing, 2000)

So how does a financial institution retain and continue to manage this growth? In an environment of sophisticated individuals that no more today about money and investing than ever before ACU is looking at new sales roles or the Relationship Manager as their next step. A person who can provide the member with the financial advise to help them build wealth; weather it be a new account, individual investment or a plan for retirement, someone constant that the member can trust. This decision brought additional challenges, one very important one, how to compensate these new individuals for sales.

SALES PROGRAM IMPLEMENTATION

The organization has spent many hours developing this cultural shift. In this learning process, ACU tried many sales programs, contests, and incentive plans all of which had problems associated with developing clear results. Most revolved around the lack of systematic thinking in the credit union. They were either too focused on programs or were trying to justify their incentive investment, regardless of the actual outcome. As Anne Benjamin, Senior Vice President of Corporate Sales; at Arrowhead Credit Union points out

> "it was never anyone's sole responsibility to develop and implement the appropriate sales program. We have had many hit and misses in the past, the timing wasn't right with the culture, we had a lot of work to do first before we would be ready for a true sales and compensation plan."

Can the implementation of a sales program be measured? The answer is yes, but at the time ACU was not in a position to commit the necessary resources to ensure accurate measurement. This can only be done through the tools for evaluating and improving individual and overall sales performance. Margaret Boni, Vice President of Branch Administration at Arrowhead Credit Union comments on past sales promotions, "they were complicated, and so structured. It took an incredible amount of time to manually track the sales. The staff was frustrated and gave up the pay rather than find the time to track, and have their managers check and recheck their sales."

So, how should the implementation and success of a sales program be measured? And can these measurements be made relevant to a specific situation within the organization? There are ways to obtain the kind of measurements they should expect from a program in which they are investing their hard-earned dollars. There are many things that ACU has changed within the culture to make the sales program successful and positive this go around. "We have to do it right this time," states Benjamin. " We can't afford another failure, the staff won't hold any credibility in it if it fails again. We have to look at things differently,"

SCOPE

The first issue to be considered when developing and implementing a sales program is scope, including the size and diversity of the organization. The number of program participants, the proper training to support the program, and the time out of the office for training. "I don't think we ever dedicated specific training around our past sales programs," comments Boni, "we just announced the new programs on a flyer, that layed out what we were going to do, and it was always followed by pages of procedures."

Two years ago ACU hired a Sales Manager, a new position with responsibilities dedicated to the implementation and success of the sales culture. They wanted to change the environment of the existing service organization. To a sales and service organization focusing on meeting the needs of its members. It was important to now set the proper expectations, and devote appropriate time to developing the staff to meet those expectations. The program became a formal plan, that had levels of consistency and areas of change that directly related to the marketing and lending focus at the time.

Arrowhead Credit Union has only just begun the process of developing and implementing a valuable sales compensation program. It is a slow transition that needs to happen gradually over time. The organization can't announce to the staff that tomorrow the way they earn their salary today will change drastically and everyone that has direct contact with the membership will have a new sales role and be accountable for the sales they make. Rather it is a learning process, one that is developed over time through training and slowly evolving steps so that you don't experience huge staff turnover. Once you factor in accountability and have sales people tracking their sales, and earning a salary based on their performance, it becomes an entirely different environment, if you aren't careful you will lose the teamwork and develop an unhealthy competitive environment.

Stacie Leake, Sales Manager at Arrowhead Credit Union has developed a gradual transition, one that the staff can evolve with and understand first. " I think that we have come through phase one of the transition," comments Leake. "Our staff is now comfortable and excited about the sales environment. They understand the need for tracking and have celebrated the successes of all their sales efforts. They will be more open to the next step in the sales process; a true sales incentive and compensation program." The next process is important in the implementation of a successful program. The next step in the implementation involved the entire organization.

MANAGEMENT SUPPORT

Management involvement is essential to the success of the sales process implementation. Branch managers are the key element in implementation, because this is the best place in the chain of command to ensure and witness the benefits of a good sales process. This also represents a special feedback loop in determining successful use of the process. This is the appropriate channel for information on success stories from the sales staff.

Special training for branch managers is necessary so they are able to manage the application and interpret the results of using the process and setting goals. Part of their performance appraisal must include their competence in doing this. Special tools need to be designed that aid the branch manager in supervising implementation of the process. The sales manager is the expert in the implementation and compensation plan and should be made available to work with the branch manager and sales staff to help them become more proficient.

Branch managers must be completely convinced that use of the sales program increases the chances of success, reduces the chance of failure and can be held as a standard by which they may help their sales staff improve their personal productivity.

THE ROLL OUT

The initial roll out of any program illustrates commitment to the program. The initial roll out is crucial to the program's success and should start with training the sales participants on the specifics of the program.

The training event should be preceded by adequate preparation. Expectations of the participants during the program should be defined in advance. This is best enforced by example. Branch manager must attend the training, and be given a unique roll during the training, that will demonstrate their knowledge of and commitment to the program and establish them in the role of facilitator. They need to stress that the training is mandatory for all sales staff.

Commitment and enforcement through their direct reports enhance management support. The manager's role only begins during the training step. Once back in the branch they become the process keepers. The branch managers must speak the common language of the sales program, use the tools and practice a common approach. This is the critical point, and the area where implementation will ultimately fail or succeed.

It is important to position the introductory program as only a first step in an ongoing process. Equally important is the communication to the sales staff of the type of behavior that will be expected of them following the initial training event and exactly how it will be monitored. If, for instance, the sales staff is expected to provide information in a certain way in the sales program, this must be enforced in the branches.

MEASUREMENT

Implementation requires practical tools. In order for a process to be emulated, it have the ability to be measured and make necessary improvements. Tools should be practical so that the users will realize the benefits from their use. These tools should have common terminology and a common approach to the sales program. They should be as automated as possible, since this further enhances the reinforcement of implementation and enhances the ability to create date from which results can be determined.

Tracking should effectively enforce the information needs required by the process. The use of such tools should be fully covered in the training step. The better the tools, the easier the process is to use and the greater the tendency to use it.

ACU has implemented an automated system that will both collect and process data, and maximize the benefits of both the use and measurement of a sales process. The automated sales system offers the ability to interface with our existing information system and can summarize the results.

The results will be measured against a benchmark of prior productivity levels and verified through statistical tests. The design will include definitions of what is to be measured and how. The focus of the measurement will be on how the results affect productivity.

Frequent and regular reviews will be conducted and the information distributed to those individuals involved in the implementation process. Overall results of the process of implementation will be communicated directly to upper management along with recommendations for improvements as a result of feedback. If and when the results are not consistent, changes will be taken to improve the sales program and its implementation.

TRAINING'S ROLE

ACU selected only qualified instructors to deliver the sales program training. These facilitators delivered the program often enough to be expert in their delivery. They were credible and experts in the sales experience, and they developed a good rapport with the participants. Sales people have little respect for instructors who do not have successful sales track records of their own.

There are viable methodologies available to improve sales productivity. The best way to insure their success is through assuring their impact on the organization through proper implementation. The process of implementation can prove to be a great opportunity to apply quality practices to the sales process. But this is best accomplished under the leadership of experts and with the full support of management.

CHAPTER FOUR

COST ANALYSIS

ANALYZING PLAN COSTS

Managers frequently perceive implementing a new sales incentive plan as costly in the short run, and the company must offset this cost with improved productivity. Successful companies know how to manage costs and improve productivity so they continuously increase their profitability. A new sales compensation plan should play a critical role in helping a company do all three.

Ultimately the sales incentive design should be cost neutral; the total amount of compensation earnings for a given group of salespeople should stay constant and the aggregate performance of the salespeople should increase. No recommended compensation plan should be presented to management without first testing to determine the cost analysis of the program.

This analysis informs management of the cost implications of the new incentive plan for various levels of aggregate and personal sales performance. This information will provide a better-informed decision about whether to proceed with the proposed incentive plan design.

There are three plans that are typically used when determining the financial impact of a sales incentive plan: aggregate, distributional and individual salesperson costing.

AGGREGATE COST ANALYSIS

The simplest cost analysis is the aggregate forecast. This projection is best made when gross estimates of the new plan are at a point complete for budgeting purposes. This model is also helpful when determining quickly total salary or incentive compensation costs as a percentage of sales. The disadvantage of this model is the limitation in only estimating aggregate salary and incentive costs for the par-performer. Therefore, this is the least useful of the three types of analyses.

The example in Table 4-1A assumes the following:

Number of sales representatives:	20
Average territory revenue achieved:	$5,050,000
Average territory goal:	$5,000,000
Average annual salary:	$60,000
Target annual incentive:	$40,000

Table 4-1. Components for Cost Calculation

A. Aggregate Par-Performers Cost Estimate	
Average annual salary	$60,000
Average actual incentive earned	42,400
Average total cash earned	$102,400
Number of sales representatives	X 20
Total compensation costs	$2,048,000
Total sales	$101,000,000
Compensation as a percentage of sales	2.03%

B. Aggregate Best-Case/Worst-Case Performer Cost Estimate	Best-Case	Worst Case
Average annual salary	$60,000	$60,000
Average actual incentive earned	76,000	20,000
Average total cash earned	$136,000	80,000
Number of sales representatives	X 20	X 20
Total compensation costs	$2,720,000	$1,600,000
Total sales	$115,000,000	$90,000,000
Compensation as a percentage of sales	2.37%	1.78%

The incentive compensation plan in Table 4-1B is based on a sales revenue bonus structure, the plan starts the incentive payout at 80 percent, or the threshold of the company goal and accelerates to goal:

Performance	*YTD Incentive Range Percentage of Revenue Quota Achieved*	*Payout per Percentage Point*
Excellence	125% or greater	5.5%
Target	100% to 124%	6.0%
Threshold	80% to 99%	5.0%

Based on the given assumptions, the average sales representative achieved 101 percent of the average territory revenue goal ($5.05 million versus $5.0 million). When applying the revenue bonus rate, the sales representative exemplified in Table 4-1A earns an annual incentive of $42,400 ($40,000 targeted incentive, plus one percentage point times the 6.0% bonus rate times the $40,000 target incentive).

To have a complete picture of the possible cost analysis it is best to determine the range of possible aggregate pay-outs to the sales force. Table 4-1B shows an example of the best-case/worst-case estimate. This example assumes the average territory revenue is $5.75 million is achieved for the best case and $4.5 million for the worst-case. Based on these assumptions, the best-case sales reps achieved 115% of goal ($5.75 million versus $5.0 million). Using the given revenue bonus rates, it is determined that the best-case sales reps earn an award incentive of $76,000 ($40,000 target incentive, plus 15 percentage points times the 6.0 percent bonus rate times the $40,000 target incentive). The worst-case sales reps earn an annual incentive of $20,000 (10 percentage points times the 5.0 percent bonus rate times the $40,000 target incentive).

DISTRIBUTIONAL COST ANALYSIS

Companies with a large number of personnel in their sales force, for example 30 or more incumbents would typically use a distributional cost analysis. This analysis will be most effective assuming that a certain number of sales representatives will reach differing levels or categories of performance.

These categories should be tiered from the minimum threshold level to qualify for the incentive, to the best possible performance level. Then while reviewing the sales force determine what percentage of the representative's fall within each tier. If this is a newly created incentive plan, where one did not exist before, prior years (or a three-year average) historical performance data should be used.

The advantage of this analysis is the simplicity of performing a sensitivity analyses. The performance distribution assumptions can simply be modified to evaluate their subsequent impact on the expected plan cost. To develop an analysis lets assume that the ACU Company sales force has 100 sales representatives and a new incentive plan has been designed for the par performer. They have created a revenue distribution for these sales representatives as follows:

Performance Category Reached	*Portion of Sales Force Reaching Performance Level*
Threshold	5%
Below Target	25%
Target	40%
Above Target	20 %
Excellence	10%

As in the earlier example the same average annual salary ($60,000) and the target annual incentive ($40,000) and the sales revenue table for the incentive plan are used:

Performance	*YTD Incentive Range Percentage of Revenue Quota Achieved*	*Pay-out per Percentage Point*
Excellence	125% or greater	5.5%
Target	100% to 124%	6.0%
Threshold	80% to 99%	5.0%

The complete distributional costing for the new incentive plan is illustrated Figure 4-1.

Figure 4-1. Example of Distribution Cost Analysis.

Pay and Performance Assumptions

						Mix	
Job Title	*Number*	*Prior Year Median Total Compensation*	*Current Year Target Total Compensation*	*Prior Year Median Sales Revenues*	*Current Year Target Sales Revenue*	*Base*	*Incentive*
Sales Rep	100	$96,000	$100,000	$4,500,000	$5,000,000	60%	40%

Sales Rep Compensation Assumptions

Number		100
Target total compensation		$100,000
Mix		
Base	60%	$60,000
Incentive	40%	$40,000

Sales Force Performance Distribution Assumptions

	Level Performance (revenue vs. goal)					
	Threshold	*Low*	*Target*	*High*	*Excellence*	*Total*
Number of reps	10	20	40	20	10	100

(continues)

Figure 4-1. Example of Distributional Cost Analysis (continued).

Incentive Payout Projections per Individual

	Level Performance (% of quota achieved)				
	Threshold (80%)	*Low (90%)*	*Target (100%)*	*High (113%)*	*Excellence (125%)*
Payout Level	$0	$20,000	$40,000	$70,000	$100,000

Note: For low performance, the incentive payout equals incentive compensation opportunity ($40,000) times the weight (100%) times the level bonus rate (5.00%) times the level percentage points achieved (actual achieved [87.5] minus threshold [75.01]). Similar calculations are completed for the target, high, excellent, and threshold performance levels.

Incentive Payout Projections (under distribution assumptions)

	Threshold	*Low*	*Target*	*High*	*Excellent*	*Total*	*Avg. per Incumbent*	*% of Target*
Payout Level	$0	$400,000	$1,600,000	$1,400,000	$1,000,000	$4,400,000	$44,000	110.0
Projected total incentive compensation						$4,400,000	$44,000	110.0
Projected total compensation (including base salary)							$104,000	104.0
Prior year median total compensation							$96,000	
Projected total compensation as a percentage of prior year total compensation							108.30%	

(continues)

Figure 4-1. Examples of Distributional Cost Analysis (continued)

Individual Sales Rep Assumptions	
Number	100
Target revenues	$5,000,000

Performance Measure	
Revenue bonus	100% Weighting

Sales force Performance Distribution Assumptions

	Level Performance (revenue vs. goal)					
	Threshold	*Low*	*Target*	*High*	*Excellence*	*Total*
Number of reps	10	20	40	20	10	100

Revenue Projections per Individual

	Level Performance (% of quota achieved)				
	Threshold (80%)	*Low (90%)*	*Target (100%)*	*High (113%)*	*Excellence (125%)*
Revenue versus goal	$4,000,000	$4,500,000	$5,000,000	$5,625,000	$6,250,000

(continues)

Figure 4-1. Example of Distributional Cost Analysis (continued)

Incentive Payout Projections

	Threshold	*Low*	*Target*	*High*	*Excellence*	*Total*	*Average per Incumbent*	*% of Target*
Rev. versus goal	$40.0 mil	$90.0 mil	$200 mil	$112.5 mil	$62.5 mil	$505 mil	$5.05 mil	101.0%
Projected sales revenue achieved						$505 mil	$5.05 mil	101.0%
Prior year median sales revenue achieved							$4.5 mil	
Projected sales revenue percentage of prior year sales revenue							112.20%	

Incentive Compensation Plan Costing Analysis Summary

	Prior Year Pay Levels			*Current Year Projected Pay Levels*			*Variance From Current Pay Levels*			
							Total		*Per Incumbent*	
Job Title	*Median Total Comp.*	*Number*	*Total Comp.*	*Average per Incumbent*	*Number*	*Total Comp.*	*$*	*%*	*$*	*%*
Sales rep	$96,000	100	$9,600,000	$104,000	100	$10.4 mil	$800,000	8.3%	$8,000	8.30%
Total	$96,000	100	$9,600,000	$104,000	100	$10.4 mil	$800,000	8.3%	$8,000	8.30%
Prior year projected with current incentive plan						$9,984,000	$384,000	4.0%		
Projected cost/(savings) increase under new incentive plan*						$416,000				

*Based on an estimated average compounded annual increase in cash compensation expense of 4.0%.

(continues)

Figure 4-1. Example of Distributional Cost Analysis (continued)

Projected Sales Revenue Summary

	Prior Year Pay Levels			*Current Year Projected Pay Levels*			*Variance From Current Pay Levels*			
							Total		*Per Incumbent*	
Job Title	*Median Total Sales Rev.*	*No.*	*Total Sales Rev.*	*Average per Incumbent*	*No.*	*Total Compensation*	*$*	*%*	*$*	*%*
Sales rep	$4,500,000	100	$450,000,000	$5,050,000	100	$505,000,000	$55,000,000	8.3%	$550,000	12.20%
Total	$4,500,000	100	$450,000,000	$5,050,000	100	$505,000,000	$55,000,000	8.3%	$550,000	12.20%
Prior year projected sales given current incentive plan						$481,500,000	$31,500,000	7.0%		
Projected increase/(decrease) in sales under new incentive plan*						$23,500,000				

*Based on an estimated annual increase of 7.0% sales in current year.

Compensation as a Percentage of Sales

	Prior Year	*Projected Year*	*Marginal Increase*
Total compensation costs	$9,600,000	$10,400,000	$800,000
Total sales	$450,000,000	$505,000,000	$55,000,000
Compensation as a % of sales	2.13%	2.06%	1.45%

Source: The Sales Compensation Handbook

INDIVIDUAL COST ANALYSIS

A new incentive plan must be equal to or better than subsequent year's plans, and management must sell the new plan to the sales force. These sales representatives, especially the top performers need to be convinced that the new incentive plan presents ample opportunity to improve earnings.

The precise income for each member of the sales force must be projected under the new plan. These projections can then be compared with the individual incentive earnings that are under the existing sales incentive plan.

As before, let's assume that the ACU Company sales force is ten sales reps and that management has recently redesigned the sales incentive plan to mirror the one already presented for the par performers (see Table 4-1A). Recall that the average annual salary is $60,000 and the target annual incentive is $40,000. An example of individual costing for the new incentive plan is illustrated in Figure 4-2.

Figure 4-2. Example of Individual Cost Analysis

Pay and Performance Assumptions

				Mix	
Job Title	*Prior Year Target Total Compensation*	*Projected Number*	*Projected Target Total Compensation*	*Base*	*Incentive*
Sales rep	$96,500	10	$100,000	60%	40%

Sales Rep Compensation Assumptions

Number		10
Target total compensation		$100,000
Mix		
Base	60%	$60,000
Incentive	40%	$40,000

(continues)

Figure 4-2. Example of Individual Cost Analysis (continued)

Incumbent Model

Sales Rep	*Current Base Salary*	*Annual Revenue Achieved**	*Annual Revenue Target**	*Annual Revenue % to Goal*	*Total Revenue Incentive*	*Total Earnings*
Adams	$59,000	$49,000,000	$5,000,000	98.0%	$36,000	$95,000
Brown	$57,500	$5,000,000	$5,000,000	100.0%	$40,000	$97,500
Cramer	$58,000	$4,945,000	$5,000,000	98.9%	$37,800	$95,800
Douglass	$61,000	$4,532,000	$5,000,000	90.6%	$21,820	$82,280
Espinoza	$60,500	$5,980,000	$5,000,000	119.6%	$87,040	$147,540
Faragamo	$60,000	$5,678,000	$5,000,000	113.6%	$72,544	$132,544
Gugliotta	$59,000	$5,180,000	$5,000,000	103.6%	$48,640	$107,640
Howard	$63,000	$4,302,000	$5,000,000	86.0%	$12,080	$75,080
Isle	$61,500	$5,230,000	$5,000,000	104.6%	$51,040	$112,540
Jones	$56,000	$4,890,000	$5,000,000	97.8%	$35,600	$91,600
Projected Sales Rep compensation		$50,637,000	$50,000,000	101.30%	$442,024	$1,037,524
Average per sales rep					$44,202	$103,752
Percentage of target					110.50%	103.80%
Current target total compensation						$96,500
Projected total compensation as a percentage of current target total compensation						107.50%

*Annual revenue achieved and annual revenue target input data represent actual historical performance.

(continues)

Figure 4-2. Example of Individual Cost Analysis (continued)

Current Target Total Compensation/Performance Relative to Projected Compensation/Performance (at prior year performance levels)

				Variance From Current Target Pay Levels	
Name	*Job Title*	*Current Target Total Compensation*	*Projected Pay Level*	*$*	*%*
Adams	Sales rep	$96,000	$95,000	($1,000)	-1.0%
Brown	Sales rep	$94,500	$97,500	$3,000	3.2%
Cramer	Sales rep	$95,000	$95,800	$800	0.8%
Douglass	Sales rep	$98,000	$82,280	($15,720)	-16.0%
Espinoza	Sales rep	$97,000	$147,540	$50,540	52.1%
Faragamo	Sales rep	$97,000	$132,544	$35,544	36.6%
Gugliotta	Sales rep	$96,000	$107,640	$11,640	12.1%
Howard	Sales rep	$100,000	$75,080	($24,920)	-24.9%
Isle	Sales rep	$98,500	$112,540	$14,040	14.3%
Jones	Sales rep	$93,000	$91,600	($1,400)	-1.5%
Total		$965,000	$1,037,524	$72,524	7.5%
Prior year projected with current incentive plan			$1,003,600		
Projected increase/(decrease) under new incentive plan*			($33,924)		

*Based on an estimated average compounded annual increase in cash compensation expense of 4.0 %.

(continues)

Figure 4-2. Example of Individual Cost Analysis (continued)

				Variance From Current Target Sales Levels	
Name	*Job Title*	*Prior Year Sales*	*Projected Sales*	*$*	*%*
Adams	Sales rep	$4,672,897	$4,900,000	$227,103	4.9%
Brown	Sales rep	$4,672,897	$5,000,000	$327,103	7.0%
Cramer	Sales rep	$4,672,897	$4,945,000	$272,103	5.8%
Douglass	Sales rep	$4,672,897	$4,532,000	($140,897)	-3.0%
Espinoza	Sales rep	$4,672,897	$5,980,000	$1,307,103	28.0%
Faragamo	Sales rep	$4,672,897	$5,678,000	$1,005,103	21.5%
Gugliotta	Sales rep	$4,672,897	$5,180,000	$507,103	10.9%
Howard	Sales rep	$4,672,897	$4,302,000	($370,897)	-7.9%
Isle	Sales rep	$4,672,897	$5,230,000	$557,103	11.9%
Jones	Sales rep	$4,672,897	$4,890,000	$217,103	4.6%
Total		$46,728,970	$50,637,000	$3,908,030	8.4%
Prior year projected with current incentive plan			$50,000,000	$3,271,028	7.0%
Projected increase/(decrease) under new incentive plan*			$637,000		

*Based on an estimated average compounded annual increase in sales of 7.0 %.

Source: The Sales Compensation Handbook

Compensation as a Percentage of Sales

	Prior Year	*Projected Year*	*Marginal Increase*
Total compensation cost	$965,000	$1,037,524	$72,524
Total sales	$46,728,972	$50,637,000	$3,908,028
Compensation as a percentage of sales	2.07%	2.05%	1.86%

CONCLUSION

No sales compensation plan is complete until the company evaluates it. Is it doing what you want it to do? If not, what should be changed? When evaluating a new compensation plan's results, senior executives focus on customers (are they buying more, and are they buying our new products), internal financial results (costs, productivity, and profitability), and employees (are we able to attract, retain, and motivate sales and customer contact personnel). Therefore, to evaluate a sales compensation program, it is necessary to assess the degree to which the plan has supported and rewarded achievement in all three areas.

Sales roles are constantly changing to meet and exceed the requirements of the competitive environment. Sometimes those changes are relatively minor and/or informal. More likely, however, they are fundamental changes taking place in the sales and customer relationship management processes. An important response to that change is defining and implementing new sales roles and designing compensation plans to support and motivate them.

At ACU this project will act as our road map for change, program corrections and tools as a way to lead and manage the sales function. The financial institution industry is in a period of explosive change, for ACU to remain competitive we need to continue to develop a niche segment of the market. Considered a small financial institution we must change and develop sales roles to better anticipate the needs of our customer first hand. Our old branch environment of tellers and new account platform staff are developing into new sales roles, those of new accounts originators and relationship managers. It's a slow process that must begin at the top management level and be supported throughout every area of the organization. If they can be successful throughout this process, they will see meaningful sales performance improvement.

Arrowhead has spent time setting the foundation for change in the sales environment; they have talked about the expectation of the new sales roles, accountability for sales success and staff rewards and recognition for sales performance. ACU has spent a considerable about of time providing the staff with sales training and demonstrating a change from management in support of the new sales roles. The staff has experienced the excitement of incentive compensation on a very small scale. As a result, they have experienced record breaking, double-digit growth figures in the last two years. In the first 6-months of 2000 they have continues to have double-digit growth patterns, and experienced higher net income than year-end 1999.

ACU is constantly changing the way they do business with their members, redesigning services and introducing sales processes to respond more quickly to member requirements, and as a consequence, the job of the individual seller is undergoing continuous change.

ACU has changed its compensation plans quickly because members want different services; because of the changes in the market, the more sophisticated buyer and the constant evolution of delivery channels. They aren't looking at the Internet to replace the phone or ATM as touch-points to their money, it is just an additional channel available to them. The compensation plan plays a critical part in reaching the member. An inappropriate sales compensation plan will result in anti-member, anti-company or anti-employee (or all three). Therefore, it is important to constantly evaluate, change and implement new incentive compensation plans.

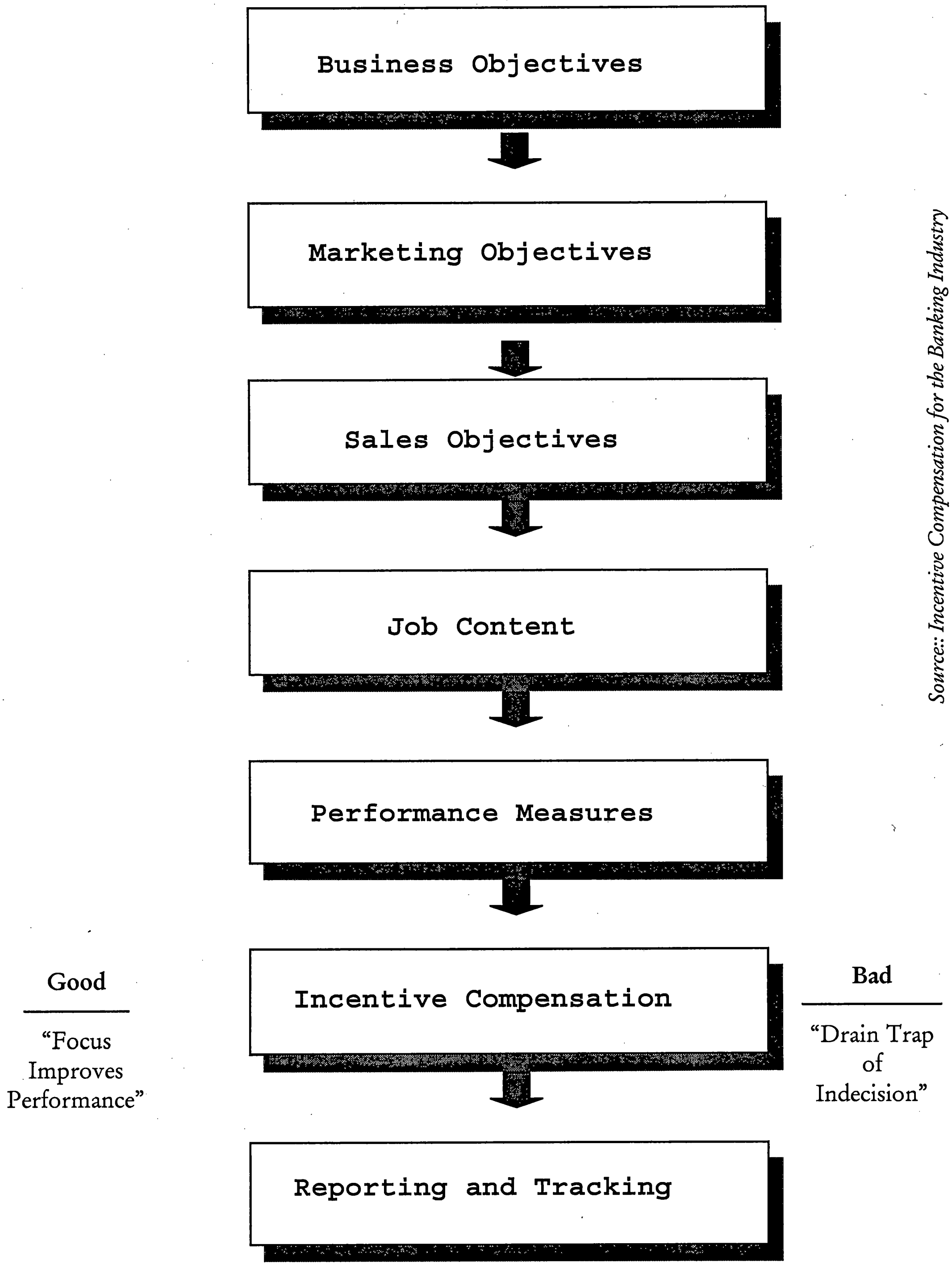
APPENDIX A

10 Steps of Effective Sales Compensation Design

1. Let Strategy Drive Tactics
2. Assess the Current Plan for Effectiveness
3. Determine Sales Objectives
4. Follow a Design Process; Use a Task Force
5. Clarify Job Content
6. Design by Component; Not by Job
7. Determine Mix, Leverage and Formula
8. Cost Model New Plan
9. Follow Change Management Principles
10. Let Strategy Drive Tactics

APPENDIX A

Step #1: Let Strategy Drive Tactics



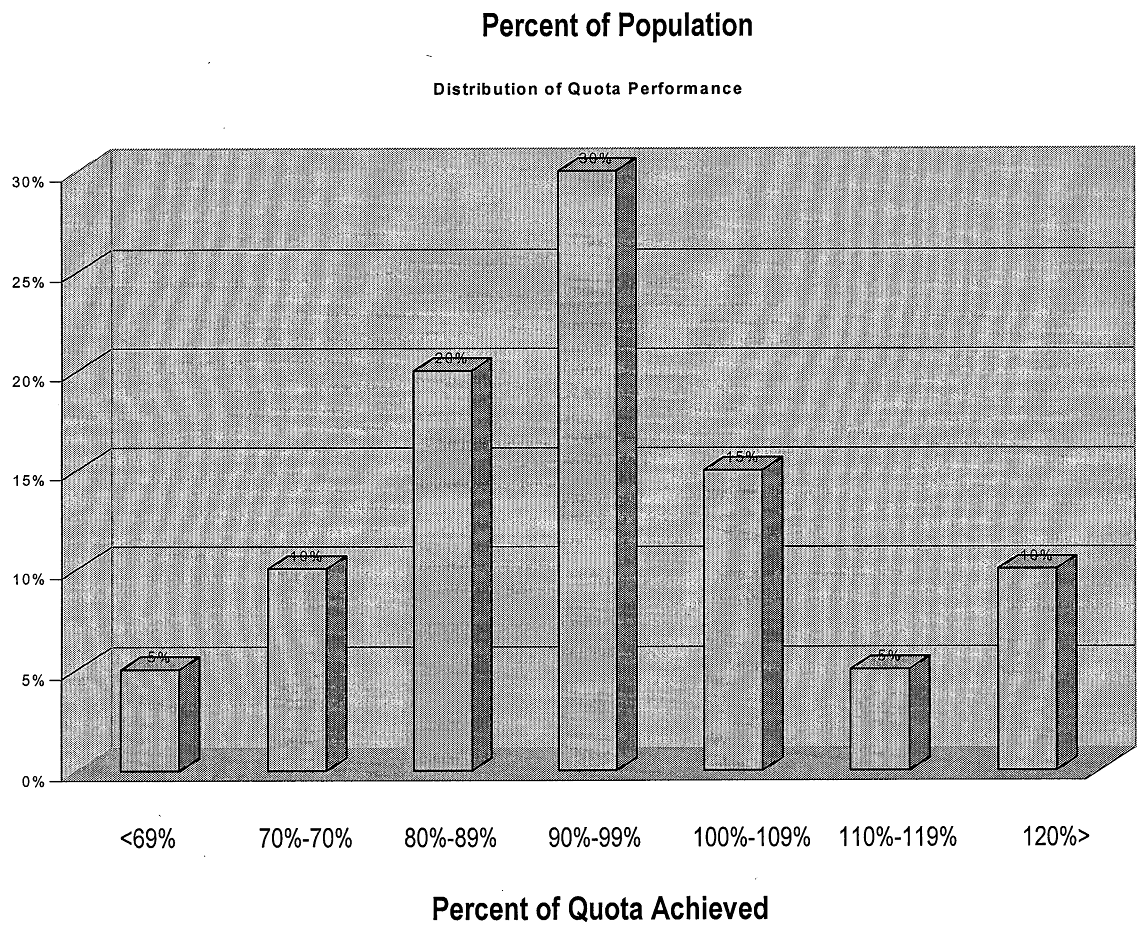
Source:: Incentive Compensation for the Banking Industry

APPENDIX A

Step #2 Access the Current Plan for Effectiveness

- Evaluate Payout vs. Performance
- Gather Market Data

Pay/Performance Data Analysis (Historical Data)



Source:: Incentive Compensation for the Banking Industry

APPENDIX A

Step #3: Determine Sales Objectives

Sales Strategy Matrix℠

	Current	New
Prospects	**Conversion Selling** "Grow Base" *(Prospects or Competitors Current Products)*	**New Market Selling** "Develop Markets" *(New Products or New Customers)*
Buyers		
Customers	**Maintenance Selling** "Protect Base" *(Retention of Current Product to Current Customers)*	**Leverage Selling** "Penetrate Accounts" *(Sell Those Customers New Products)*

Products

Source:: Designing Compensation Plans for New Sales Roles

APPENDIX A

Step #4: Follow a Design Process; Use a Task Force

The seven to eight member task force should include representatives from:

- Sales Management
- Field Sales Management
- Marketing
- Finance
- Human Resources

Also attending for information purposes:

- MIS
- Sales Administration

APPENDIX A

Step #5: Clarify Job Content

Blended Sales Job	→	**Two or More Dissimilar Tasks**
Corrupted Sales Job	→	**Other Non-Sales Tasks Have Crept into Sales Jobs**
In-Line Transformation	→	**Success of Initial Effort Changes Job to a Second Job**
Band-Width Exceeded	→	**Too Many Objectives to be Accomplished by One Job**

Source:: Incentive Compensation for the Banking Industry

APPENDIX A

Step #6: Design by Component; Not by Job

Follow this order	Choices/Examples
1. Eligibility	Yes or No
2. Target total compensation	Annual Pay for Expected Performance
3. Mix and Leverage 50/50/200	90/10/120, 80/20/140 70/30/160,
4. Performance Measures	Production: Sales Dollars, Units Strategic: Product Mix, Profits, New Products, Account Penetration
5. Incentive Formula Matrix	Commission, Bonus, Combination,
6. Formula Features	Performance Threshold, Earnings, Caps, Performance Period, Payment Timing

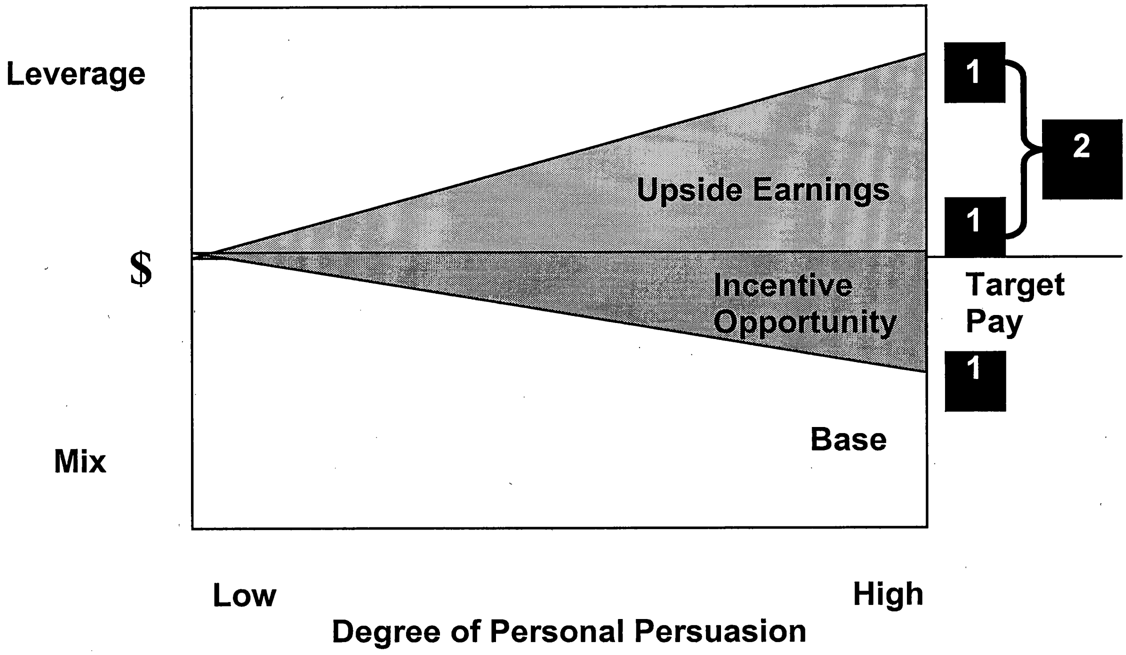
Plan Summary Information

	Eligibility	Total Comp.	Mix/ Lvrg	Perf Measures	Weight	Formula
Sales Rep						
National Accts Manager						
Market Rep						
Sales Manager						
Sales Associate						

Source:: Incentive Compensation for the Banking Industry

APPENDIX A

Step #7: Determine Mix and Leverage



Source:: Incentive Compensation for the Banking Industry

Appendix A

Step #8: Cost Model New Plan

Branch Sales Manager

On-Plan Incentive	$20,000	
Branch Booked Orders Quota:	$1,000,000	
Branch Booked Margin $ Quota:	$1,000,000	
Actual Bookings Performance:	$1,000,000	100.00%
Acutal Margin Performance	$1,000,000	100.00%

1st Half Orders Bonus	$5,000
Branch Orders Bonus	$5,000
	Achieved (Y or N)
1st Half Orders	Y
100% Branch Orders	Y

Plan Component	Weight	COPI*	Incentive Paid
Region Booked Orders	60%	$12,000	$12,000
Region Booked Margin $	40%	$8,000	$8,000
1st Half Orders	na	$5,000	$5,000
100% Branch Orders	na	$5,000	$5,000
			$30,000

*Note: COPI is the Component On-Plan Incentive

	% of COPI	
	% of Quota	
Quota Achievement %	**Orders**	**Margin**
100.1% +	10.00%	20.00%
80.1 - 100%	1.00%	1.00%
0 - 80%	0%	0%

APPENDIX A

Step #9: Follow Change Management Principles

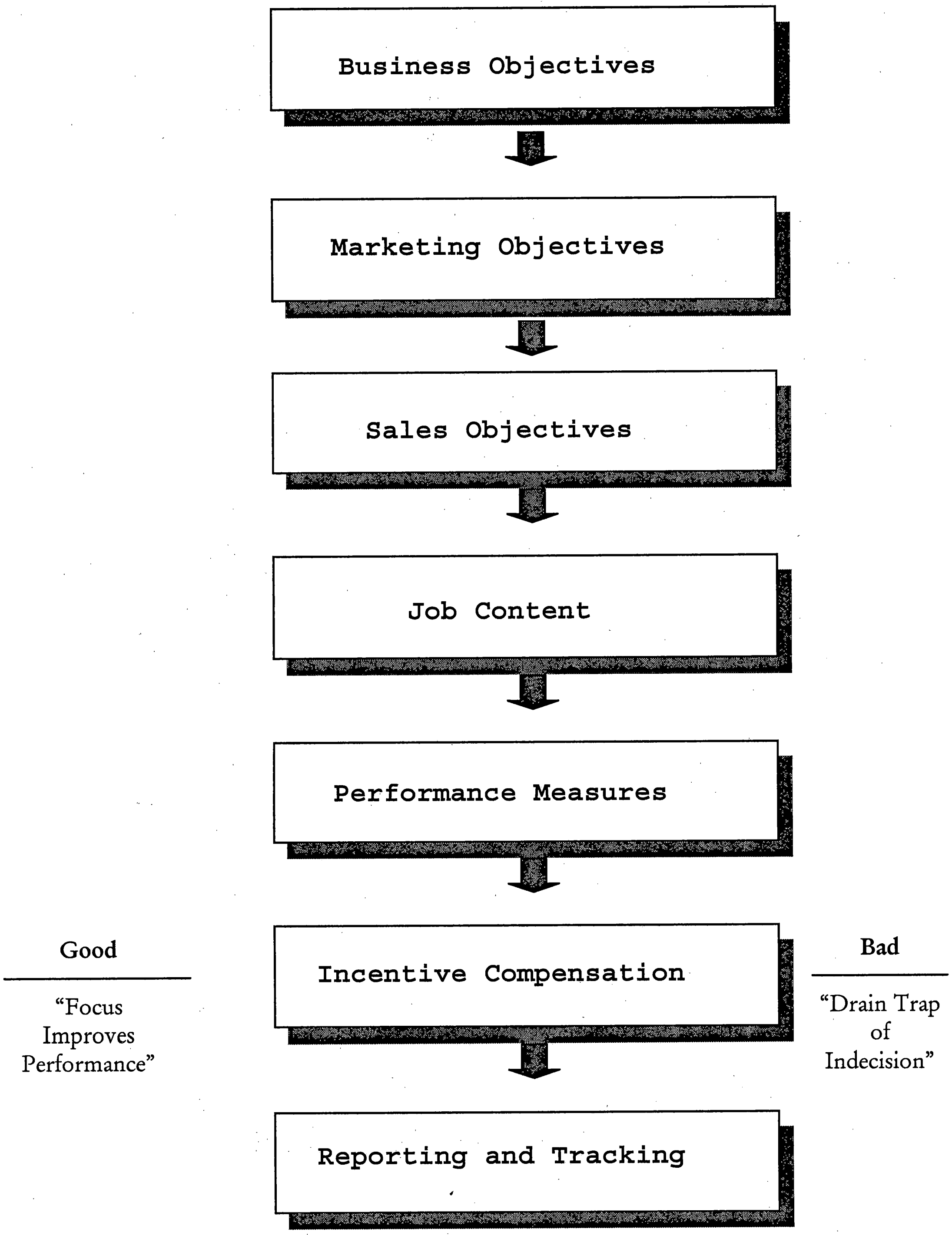
Communication Strategy

Presenter	Audience	Purpose/Message
Design Team Mbrs	Executive Mgmt	♦ Review ♦ Approval
Sales Executive	Regional Sales Mgmt	♦ Overview ♦ Review ♦ Support
Sales Executive and Design Team Members	Field Sales Mgmt	♦ Explanation ♦ Support ♦ Training ♦ Communication
Sales Executive	All Sales Personnel	♦ Overview ♦ Support
Field Sales Mgmt.	Direct Sales Reports	♦ Training ♦ Q&A ♦ Coaching ♦ Implementation

Source:: Incentive Compensation for the Banking Industry

APPENDIX A

Step #10: Let Strategy Drive Tactics



Source:: Incentive Compensation for the Banking Industry

Suggested Work Plan Summary

1. Develop master implementation plan.
   a. Detailed work plan steps
   b. Time line
   c. Identification of key milestones
   d. Assignment of accountability for each key deliverable

2. Conduct employee groups.
   a. Understanding of range of potential responses to and questions about the new incentive plans
   b. Refine implementation plan to account for focus group feedback

3. Develop incentive plan documentation to serve as stand-alone reference documents for the new plans.
   a. Statement of corporate compensation philosophy
   b. Detailed incentive plan description
   c. Incentive calculations examples
   d. Administration policies and practices
   e. Territory agreements

4. Develop communication materials, including presentations and training aids.
   a. Executive overview presentation
   b. Train-the-trainer presentation
   c. Detailed breakout session presentation
   d. Question and answer document
   e. Earnings calculation worksheet

5. Conduct implementation team meetings.
   a. Progress updates on all aspects of the implementation plan
   b. Review of draft plan documentation and communication materials

6. Conduct information technology meetings.
   a. Programming of systems to administer sales incentive plans

7. Hold senior management meetings
   a. Approval of implementation approach and communication materials

8. Initiate train-the-trainer sessions.

a. Sales managers and sales incentive plan administration personnel trained on the specifics of the new incentive plans
b. Sales managers prepared to train their assigned sales personnel on the new plans

9. Develop checklist of key items to assist in post-implementation audit.
   a. Corporate and sales personnel equipped with the appropriate tools to conduct the audit, including a checklist of assess the effectiveness of the implementation effort and an understanding of the analyses used to determine whether plan modifications are required

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Source: The Sales Compensation Handbook

APPENDIX C

Select Performance Measures

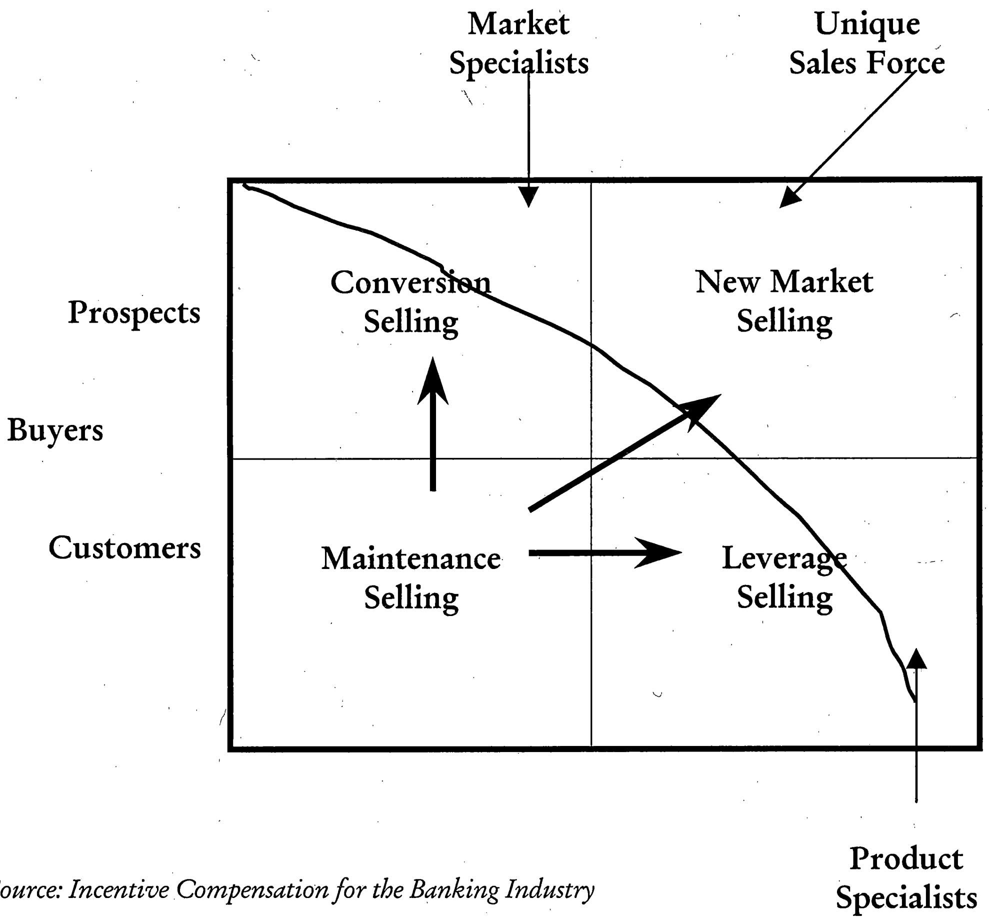
Management Rank order of priority 1,2,3

	VP Sales	VP Mktg.	CFO	Regional Mgr.	General Mgr.
Sales Volume					
Profit					
New Accounts					
New Products					
Price Realization					
Product Mix					
Account Growth					
Account Churn					

Source:: Incentive Compensation for the Banking Industry

APPENDIX D

Strategy Matrix™



Source: Incentive Compensation for the Banking Industry

APPENDIX E

Plan Illustrations and Techniques

Account Manager	
TTC	Market Rate
Mix	70/30
Upside	2:1
Goals	Revenue from one or More Segments Profitability Product Mix
Notes	Direct or telephone contact with account as necessary Deploys/coordinates product specialists

Revenue Profitability, Product Mix

I. Quarterly Revenue Bonus (70% Weighting)

% to Goal		% of Target Award
Excellence	140	300
	130	250
	120	200
	110	150
Target	100	100
	90	75
Threshold	80	50
	<80	0

II. Quarterly Segment(s) Profitability Bonus (15% Weighting)

% to Goal		% of Target
Excellence	140	300
	130	250
	120	200
	110	150
Target	100	100
	90	75
Threshold	80	50
	<80	0

III. Quarterly Segment(s) Product Mix (15% Weighting)

Performance	% of Target Award
Excellence	300
Target	100
Threshold	50

Source: Incentive Compensation for the Banking Industry

APPENDIX E

Plan Illustrations and Techniques

Product Specialist	
TTC	Market Rate
Mix	70/30
Upside	2:1
Goals	Product Revenue Segment Revenue Segment Profit-ability
Notes	Direct or tele-phone contact as necessary Product expert Responsible for support segment revenue growth

Revenue Profitability, Segment Revenue, Profitability Segment

I. Quarterly Product Revenue Bonus (40% Weighting)

	% to Goal	% of Target Award
Excellence	140	300
	130	250
	120	200
	110	150
Target	100	100
	90	75
Threshold	80	50
	<80	0

II. Quarterly Segment(s) Revenue Bonus (30% Weighting)

	% to Goal	% of Target
Excellence	140	300
	130	250
	120	200
	110	150
Target	100	100
	90	75
Threshold	80	50
	<80	0

III. Quarterly Segment(s) Profitability Bonus (30% Weighting)

Performance	% of Target Award
Excellence	300
Target	100
Threshold	50

Source: Incentive Compensation for the Banking Industry

APPENDIX E

Plan Illustrations and Techniques

Call Center Representative

TTC	Market Rate
Mix	80/20
Upside	2:1
Goals	-Revenue from Segments served -Member Retention -Member Satisfaction -Account Relationship Development
Notes	-Pro-active telephone sales/relationship building -Limited service role -Segment focus

Revenue, Retention, Member Satisfaction, Account Relationships

I. Segment(s) Revenue From Geography Served (40% Weighting)

% to Goal	% of Target Award
130	300
120	233
110	167
100	100
90	75
80	50
<80	0

II. Retention (% of current member revenue retained) (20% Weighting)

% to Goal	% of Target
95	300
94	200
93	100
92	75
91	50
<91	0

III. Member Satisfaction (20% Weighting)

Performance	% of Target Award
Excellence	300
Target	100
Threshold	50

IV. Account Relationship Development (20% Weighting)

Performance	% of Target Award
Excellence	300
Target	100
Threshold	50

Source: Incentive Compensation for the Banking Industry

APPENDIX E

Plan Illustrations and Techniques

Sales Platform Seller

TTC	Market Rate
Mix	80/20
Upside	2:1
Goals	-Self Generated Revenue -Successful Referrals -Member Satisfaction (Retention)
Notes	-Supports segment revenue growth strategy -Sell the "right" products to the member -Refers member to specialists

Revenue, Successful Referrals, Retention

I. Quarterly Revenue Bonus (40% Weighting)

% to Goal	% of Target Award
130	300
120	233
110	167
100	100
90	75
80	50
<80	0

II. Successful Referrals to Product Specialists (30% Weighting)

% to Goal	% of Target Award
130	300
120	233
110	167
100	100
90	75
80	50
<80	0

III. Member Satisfaction (Retention of Branch Accounts)(30% Weighted)

Performance	% of Target Award
Excellence	300
Target	100
Threshold	50

Source: Incentive Compensation for the Banking Industry

APPENDIX E

Plan Illustrations and Techniques

Teller	
TTC	Market Rate
Mix	90/10
Upside	2:1
Goals	-Branch Revenue -Member Penetration
Notes	-High member conduct means service is a priority

Revenue Profitability, Product Mix

I. Quarterly Revenue Bonus (60% Weighting)

% to Goal	% of Target Award
130	300
120	233
110	167
100	100
90	75
80	50
<80	0

II. Quarterly Member Retention Bonus (40% Weighting)

% to Goal	% of Target Award
95+	300
94	200
93	100
92	75
91	50
<91	0

Source: Incentive Compensation for the Banking Industry

Factors determining salary/incentive mix.

Source:: Designing Compensation Plans for New Sales Roles

		Low Incentive (up to 100% Salary/ 0%Incentive	(Check Rating) 5	4	3	2	1	High Incentive (up to 0%Salary/ 100%Incentive
Role of Salesperson in the Sales Process	Name of Product	Unique/Complex	❑	❑	❑	❑	❑	Commodity
	Price Competition	Weak	❑	❑	❑	❑	❑	Strong
	Customer Loyalty	Company	❑	❑	❑	❑	❑	Sales Rep
	Expertise	Extensive	❑	❑	❑	❑	❑	Limited
	Sales Objectives	Strategic	❑	❑	❑	❑	❑	Volume
	Type of Selling	Consultative	❑	❑	❑	❑	❑	Transactional
	Sale of	Relationships	❑	❑	❑	❑	❑	Product
	Number of Sales	Few	❑	❑	❑	❑	❑	Many
	Seasonality	Heavy	❑	❑	❑	❑	❑	None
Mgmt. and Perception of Salesperson in the Org.	View of Salesperson	Team Members	❑	❑	❑	❑	❑	"Agents"
	Impact of Salesperson	One Factor	❑	❑	❑	❑	❑	Primary Factor
	Relationship	Loyalty/Respect	❑	❑	❑	❑	❑	Economic
	Supervision	Extensive	❑	❑	❑	❑	❑	Limited
	Management Style	Value-Driven						Entrepreneurial
		Totals						
		Overall Results						

53-70: High salary/low incentive; complex, long-term selling process, unique product or service, team focus, high-level customer relationships
31-52: Median salary/incentive ratio; evolving jobs and processes, diverse products or services, both individual and team contributions.
14-30: High incentive/low salary; transaction sales, short selling cycle, commodity products, salesperson controls the sales process.

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